

Mechel OAO
Form 20-F
May 13, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

Commission file number 001-32328

MECHEL PAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125167, Russian Federation

(Address of principal executive offices)

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

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

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

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

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

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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Item 17 Item 18

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

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

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

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

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

The presentation currency of our consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of our consolidated financial statements prepared under U.S. GAAP. The

reason of adopting the Russian ruble as the presentation currency in the consolidated statements

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

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

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

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

CIS means the Commonwealth of Independent States.

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

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

Power

Southern Kuzbass Power Plant

Southern Kuzbass Power Plant
OAO

Russia, Kemerovo region

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

strategies, outlook and growth prospects;

the ability to maintain sufficient cash and other liquid resources to meet our operating and debt service requirements;

our ability to comply with the financial covenants in our loan agreements as well as other covenants and restrictions imposed by the existing and future financing arrangements and our ability to achieve an outcome in the ongoing debt restructuring negotiations with our lenders;

the impact of competition;

costs of our acquisitions and ability to realize expected synergies and other benefits;

capital expenditures;

demand for our products;

economic outlook and industry trends;

transactions with related parties;

regulatory compliance;

developments in our markets;

future plans and potential for future growth;

the impact of regulatory initiatives; and

the strength of our competitors.

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

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

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PART I

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

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

Selected Financial Data

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

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

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

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

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

Cash dividends per common share

Cash dividends per preferred share

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

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

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

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

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

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

Mining Segment Adjusted EBITDA

26,831

13,359

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

Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measure of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or

as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exchange Rates

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

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

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

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

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

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

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

Risk Factors

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

Risks Relating to Our Financial Condition and Financial Reporting

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

As discussed in note 4 to our consolidated financial statements in Item 18. Financial Statements, because we have significant debt that we do not have the ability to repay without refinancing or restructuring of all our financial obligations, and our ability to do so is dependent upon continued negotiations with the banks, there is substantial doubt about our ability to continue as a going concern. We also note that we have been in non-compliance with financial and non-financial covenants in our major loan agreements. In addition, there was a default on payments of principal and interest to certain lenders and lessors. See We face pressure on our liquidity, negatively influencing our working capital, which resulted from the acquisitions, substantial investment program, lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks, Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged and We have not fulfilled our payment obligations under several of the group's lease agreements and a number of the respective lessors have required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects. Although throughout the year there were several attempts to claim accelerated repayments, by December 31, 2015, we have agreed with our major lenders, such as Gazprombank, VTB Bank and Sberbank, to restructure our debt. As of December 31, 2015, we have signed amendment agreements with Gazprombank and VTB Bank which were conditional upon certain undertakings, which we have managed to fulfill in part as of the date hereof. As of December 31, 2015, we have also signed settlement agreements with Sberbank on Southern Kuzbass Coal Company credit facilities which were under legal proceedings. In February and March 2016, we signed amendments regulating the terms of restructuring to all credit

agreements with Sberbank. In April 2016, Southern Kuzbass Coal Company signed new settlement agreements with Sberbank which assigned part of the principal amount to Gazprombank and the remaining debt

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was restructured. See *Item 5. Operating and Financial Review and Prospects*. If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects. Although we signed restructuring agreements with Russian state banks during the period from August 2015 through April 2016, we still have a number of various creditors which could (have the legal right to) request for accelerated repayment of our debt. We do not have the resources to enable us to comply with such accelerated repayment requests immediately. Our restructuring plan includes refinancing and amendment of the terms and conditions of our existing debt agreements to extend grace periods and repayment periods beyond December 31, 2016 and align the servicing of our debt with the projected cash flows to be generated by the group in 2016 and beyond, are discussed in *Item 5. Operating and Financial Review and Prospects*. Liquidity and Capital Resources Outlook for 2016 and note 4 to our consolidated financial statements in *Item 18. Financial Statements*. Our future is dependent on our ability to refinance or restructure our indebtedness successfully or otherwise address these matters. If we fail to do so for any reason, we would not be able to continue as a going concern and could potentially be forced to seek relief under applicable bankruptcy or insolvency procedures, in which case our shares and ADSs would lose all or a substantial amount of their value. However, given management's plans, our consolidated financial statements have been prepared on the basis that we will continue as a going concern entity, and no adjustments have been made in our consolidated financial statements relating to the recoverability and classification of the recorded value of assets, the amounts and classification of liabilities or any other adjustments that might result in any potential impact of us not being able to refinance our debt obligations as outlined in note 4 to our consolidated financial statements in *Item 18. Financial Statements*.

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

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

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

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

schedules with our major creditors as well as partial capitalization of interest payments and restructuring of overdue interest and principal. Our primary objective in negotiating the debt refinancing and restructuring relates to matching our projected available free cash flows with future financial and

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

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

Our ability to refinance existing debt is limited due to difficult conditions on the domestic and international capital markets and in the banking sector, together with sanctions imposed on certain Russian banks preventing them from raising additional long-term financing on the international capital markets. We have restructured part of our debt portfolio, reduced the capital investment program and disposed of certain non-core or loss-making assets. See [Item 7. Risks Relating to Our Business and Industry](#). If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects and [Item 7. Risks Relating to Our Business and Industry](#). We will require a significant amount of cash to fund our capital investment program. These measures, if successful, should reduce the risk of facing a liquidity shortage in the medium term as well as allow us to reduce our debt leverage over time.

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

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodity prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors (including the imposition of further international sanctions against Russian companies or individuals as well as certain industries, including steel and mining sectors), many of which are beyond our control, may adversely and materially affect our cash flow, liquidity and working capital position and may result in an increase in our working capital deficit and in our inability to meet our obligations as they fall due. Poor liquidity and working capital deficit could lead to debt repayments difficulties, defaults, enforcement of security and eventually insolvency. As a result we will not be able to expand our business, finance capital expenditures and would have to downgrade which could result in higher cost of borrowing. All these factors could lead to difficulties with refinancing and would require further restructuring. See [Item 7. Risks Relating to Our Business and Industry](#). If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, [Risks Relating to Our Business and Industry](#). We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our creditors, including the Federal Tax Service of the Russian Federation, may file a bankruptcy petition with a court seeking to declare us insolvent if we are unable to make payments to our creditors in excess of 300,000 rubles within three months of such payments becoming due. In most cases, for such petition to be accepted, the outstanding indebtedness must be confirmed by a separate court decision or arbitral award that has already entered into force. However, under recent amendments to the Federal Law No. 127-FZ On Insolvency (Bankruptcy) dated October 26, 2002 (the **Bankruptcy Law**), financial (credit) organizations, which include our major creditors, may file a petition for bankruptcy without such separate court decision. In this case, the financial organization is required to notify the debtor and its creditors in writing at least 30 days prior to filing a petition for bankruptcy. Starting from July 1, 2015, the notification period is reduced to 15 days from the date of publication of the bankruptcy petition in the Unified Federal Register of Information on Facts of Business Activity of Legal Entities. On March 7, 2015, VTB Bank published a notification of its intention to initiate bankruptcy proceedings against us. On March 12, 2015, VTB Bank

further informed our main creditors of its intention to proceed with such bankruptcy petition. The restructuring documents have been signed in September 2015 and currently there is no further development regarding this issue from VTB Bank side. On April 24, 2015,

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VTB Bank and VTB Capital Plc filed a claim with the High Court of Justice Queen's Bench Division Commercial Court in England seeking for injunctive relief under pre-export facility agreements with a syndicate of banks. This claim and court proceedings were put on hold until July 1, 2016. VTB Bank and VTB Capital Plc terminated Russian court proceedings and recalled all of their Russian claims against us in October 2015, once restructuring agreement with VTB Bank became effective. See Item 8. Financial Information Litigation Debt litigation. If any other creditor initiates court proceedings seeking to declare us insolvent or if the bank is granted with aforementioned preliminary injunctions, it could have a material adverse effect on our prospects and on the value of our shares and ADSs and may ultimately result in the inability of holders of our shares and ADSs to recover any of their investments.

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

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

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

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

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

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

The lease agreements we have entered into generally provide for a stricter procedure, whereby the lessor is also entitled to terminate the contract unilaterally, without applying to the court, by way of sending a notification

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to the lessee in case of non-payment within a specified period of time. The lessor is entitled to receive penalties in case of a delay in payment and early termination of the lease agreement due to the lessee's default. Upon termination of the lease agreement, the lessor is entitled to request the return of the leased equipment. If the lessee fails to return the equipment, the lessor is entitled to receive rental payments covering the time of the delay and compensation for damages if not covered by rental payments.

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

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

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

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

Our business requires maintenance capital expenditures in order to maintain production levels adequate to meet the demand for our products, as well as other capital expenditures to implement our business strategy. We spent 3,865 million rubles during 2015 on our capital expenditures (including 1,837 million rubles in maintenance capital expenditures). In planning for 2016, we followed our current investment policy focusing only on those items that are either close to completion or are of major importance for our operations. Our capital investment program currently contemplates capital spending of up to 8,380 million rubles in 2016 (including up to 2,898 million rubles in maintenance capital expenditures). A considerable part of these planned capital expenditures relate to the development of the Elga coal deposit. The Elga capital expenditures are planned in the amount of approximately 6.3 billion rubles to be financed from our own funds in 2016-2018. State Corporation – Bank for Development and Foreign Economic Affairs (Vnesheconombank) (**Vnesheconombank**) provided project financing to Elga in April 2014. As of December 31, 2015, the total amount of financing received under this project financing amounted to \$170.8 million (approximately 12.5 billion rubles as of December 31, 2015). Further financing of the project is subject to the

fulfillment of conditions precedent stipulated in the project finance agreements. See Risks Relating to Our Business and Industry The development of the Elga coal deposit is subject to certain risks due to the substantial amount of capital costs involved in developing the

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required infrastructure. We plan to spend up to 27.4 billion rubles for the three-year period of 2016-2018 on capital investments (including up to 10.0 billion rubles in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program.

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

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

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

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

Inflation could increase our costs and decrease operating margins.

In 2015, 2014 and 2013, the inflation rate in Russia was 12.9%, 11.4% and 6.5%, respectively, according to the Russian Federal State Statistics Service (**Rosstat**). The increase of inflation in 2014 followed by further

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

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

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

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

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

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

Russian companies are limited in their ability to place shares in circulation outside of Russia, including in the form of depositary receipts such as our common American Depositary Shares (**common ADSs**) and our global depositary shares representing our common shares (**GDSs**), as well as our preferred American Depositary Shares representing our preferred shares (**preferred ADSs**), and together with the common ADSs, the **ADSs**) due to Russian securities regulations. We have received permission from the Russian Federal Financial Markets Service (**FFMS**) for up to 40% of our common shares to be circulated abroad through depositary receipt programs, which was the maximum amount allowed at that time. Later we also received FFMS permission for a total of 41,627,074 preferred shares to be circulated through depositary receipt programs, representing 30% of the total number of issued preferred shares,

which was the maximum amount allowed at that time. Over the last few years, this limit has been gradually reduced by the regulator. Current regulations provide that no more than 25%, 15% or 5% of the total number of outstanding shares of a certain class may be placed or

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circulated outside the Russian Federation depending on the company's listing status on a Russian stock exchange (A, B or V and I). Order No. 13-62/pz-n of the FFMS of July 30, 2013 introduced new rules on listing status, according to which the following new categories were created: Level 1, which includes the securities formerly categorized as A level, and Level 2, which includes the securities formerly categorized as B, V, or I level securities. Our common and preferred shares have a listing status of Level 1 on Closed Joint Stock Company MICEX Stock Exchange (MICEX). It is unclear whether the FFMS's approvals of higher amounts prior to the establishment of these lower limits will be allowed to remain in place. Our common ADSs and GDSs together currently account for approximately 35% of our common shares, and accordingly we believe we cannot raise additional equity financing through placement of common shares in the form of depositary receipts. If the current limits are enforced Deutsche Bank Trust Company Americas (the **depository**) may be forced to cancel some of our common ADSs and GDSs and deliver a corresponding number of the underlying common shares to holders of common ADSs or GDSs. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

recoverable value over carrying value was identified therefore reversal of previously recorded impairment loss as of December 31, 2014 was recognized in the amount of RUB 5,966 million.

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

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

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

Our subsidiaries maintain their books and records in local currencies and prepare accounting reports in accordance with local accounting principles and practices. In particular, each of our Russian subsidiaries maintains its books in rubles and prepares separate unconsolidated financial statements in accordance with Russian accounting standards. For every reporting period, we translate, adjust and combine these Russian statutory financial statements to prepare consolidated financial statements prepared in accordance with IFRS. This is a time-consuming task requiring us to have accounting personnel experienced in internationally accepted accounting standards. We believe there is a shortage in Russia of experienced accounting personnel with knowledge of internationally accepted accounting standards. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of internationally accepted accounting standards. Such competition makes it difficult for us to hire and retain such personnel, and our key accounting staff may leave us.

Risks Relating to Our Business and Industry

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

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

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

collapse and demand is falling which is already hurt by economy slowdown. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control.

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

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

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

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

We face competition from Russian and international steel and mining companies. Consolidation in the steel and mining sectors globally has led to the creation of several large producers, some of which have greater financial resources and more modern facilities than our group. We also face price-based competition from producers in

emerging market countries, including, in particular, Brazil (in the export of raw materials for metallurgy) and China, Ukraine, Belarus, Turkey and Kazakhstan (in the export of semi-finished products and rolled products). Increased competition could result in more competitive pricing and reduce our operating margins.

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

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

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

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

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

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

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

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

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

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

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

In particular, the total current annual capacity of the Baikal-Amur Mainline to which our Elga deposit is connected by our private rail line, is in the range of 12 to 15 million tonnes, which upon implementation of certain actions set forth in the Federal Target Program Development of Transport System of Russia (2010-2020) is expected to increase up to 23 million tonnes per year by 2017. However, in order to comply with

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the general declared volumes for cargo transportation on the Baikal-Amur Mainline, its capacity will need to be further expanded to meet, among others, our needs when Elga Open Pit reaches its full planned annual production capacity of 28.2 million tonnes of saleable coal in 2027. In addition, Russian Railways plans to increase capacity of the Komsomolsk-on-Amur-to-Sovetskaya Gavan segment, which connects the Baikal-Amur Mainline to Port Vanino, to 42.3 million tonnes in 2016. However, this increase may not be sufficient as third party users of rail lines may also substantially increase their cargo volumes on the Baikal-Amur and Trans-Siberian Mainlines and further in the direction from Komsomolsk-on-Amur to Sovetskaya Gavan transportation hub. We cannot guarantee that these development projects by Russian Railways will proceed according to current plans, particularly in light of international sanctions against Russian companies and individuals. In addition, there is acute competition among Russian coal exporters for existing port capacity. In light of this shortage, Russian coal producers have endeavored to acquire ports or separate terminals to ensure the export of their products.

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

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

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

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

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

acquired from third parties) may cause our title to such shares to be subject to challenge.

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

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

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

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

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

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

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

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

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

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

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

GSP-Trade OOO, Freight Company Novotrans, TransInvestCom OOO, Firm Transgarant OOO, IMH-Transport OOO and Rail Garant amounted to 26.7 million tonnes, for which we paid 7.1 billion rubles.

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

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

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

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

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

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

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

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

Chemical substances contained in some of our products, as well as by-products and waste, which we export to or produce in the European Union are subject to regulation (EC) No 1907/2006 on registration, evaluation, authorization and restrictions of use of chemicals (**REACH**) that entered into force on June 1, 2007. Under REACH, we must provide a registration dossier for such substances to the European Chemicals Agency (**ECHA**). In addition, we must provide the information about the registered substances usage and utilization to the competent authorities of the E.U. Member States and downstream users upon request. In accordance with REACH, prior to December 1, 2008, we

pre-registered substantially all of the substances that we intended to export to or produce in the European Union. As a next step in accordance with the REACH implementation

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schedule, prior to December 1, 2010, we registered with the ECHA all of the substances that we export to or produce in the European Union in an amount over 1,000 tonnes per year, and which are subject to REACH registration. We believe that we are in compliance with current REACH requirements and we will have to maintain certain resources to ensure compliance with further developing REACH requirements.

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

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

We are subject to mining risks.

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

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

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

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

occasions and we are cooperating with the competent governmental authorities, in particular, the Russian Federal Service for Ecological, Technological and Nuclear Supervision (**Rostekhnadzor**).

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

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

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

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

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

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

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2015, we have not created any reserves for environmental liabilities and compliance costs, other than an

accrual in the amount of RUB 3,704 million for rehabilitation provision. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided. We estimated the total

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

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

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

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

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

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

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

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

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

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

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

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

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

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

present at a general shareholders meeting and can control the appointment of the majority of directors and the removal of all of the elected directors if they act in concert. In

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Russian corporate law allows minority shareholders holding as little as a single share in a company to have standing to bring claims against the company challenging decisions of its governing bodies. These features of Russian corporate law are often abused by minority shareholders, who can bring claims in local courts seeking injunctions and other relief for which, in some cases, we may not receive notice. Any such actions by minority shareholders, if resolved

against our group companies, could have a material adverse effect on our business, financial condition, results of operations and prospects. See Item 8. Financial Information Litigation Securities litigation.

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

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

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

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

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

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

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

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

group companies are located are subject to varying interpretations, we may not be able to defend successfully any challenge brought against such actions, decisions or transactions,

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and the invalidation of any such actions, transactions and corporate decisions or imposition of any restriction or liability could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

Risks Relating to Our Shares and the Trading Market

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

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

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

Moreover, should any sector in which we operate become subject to so-called sectoral sanctions, in either of the United States or the European Union, the relevant clearing systems, brokers and other market participants as well as

the New York Stock Exchange (**NYSE**) may refuse to permit trading in or otherwise facilitate

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transfers of the ADSs. As a result, applicable law or internal compliance requirements may prevent certain ADS holders from continuing to hold the ADSs and potential ADS holders may be prohibited from purchasing the ADSs. Any of the above could significantly reduce the trading market for, and materially adversely affect the value of, our shares and ADSs.

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

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

investor perception of us as a company;

actual or anticipated fluctuations in our revenues or operating results;

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

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

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

price and timing of any refinancing of our indebtedness;

potential litigation involving us;

changes in financial estimates and recommendations by securities research analysts;

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

the performance of other companies operating in similar industries;

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

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

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

general investor perception of investing in Russia.

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

On August 19, 2015, we received an official notice from the NYSE stating that the price for Mechel ADSs had fallen below the \$1.00 threshold and we were required to bring our share price and average share price back above one U.S. dollar within six months from the date of receipt of the notice. In order to regain compliance with the NYSE requirements, we changed the ratio of our ADSs from one ADS per one common share to one ADS

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per two common shares, which became effective on January 12, 2016. As a result, we received official notice from the NYSE on February 1, 2016 that our ADSs came back into compliance with the listing standards.

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

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

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

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

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

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

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

Currently, it is not clear whether the term depositary receipt owner means a holder registered on the records of the depositary, a securities intermediary or a beneficial owner of a depositary receipt. As a result, the

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

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

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

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

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

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

power of attorney.

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

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

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

ADS holders may be unable to repatriate their earnings.

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

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

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

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

Under Russian tax legislation, gains realized by foreign organizations from the disposition of Russian shares and securities, as well as financial instruments derived from such shares, with the exception of shares that are

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traded on an organized securities market, may be subject to Russian profit tax or withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. Gains arising from the sale on foreign exchanges (foreign market operators) of securities or derivatives circulated on such exchanges are not considered Russian source income.

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

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

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

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

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

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

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

persons). The Justice persons disposed or may dispose of all or part of the remaining preferred shares they held through one or more offerings or broker trades. It is also possible that we may decide to offer additional preferred shares and preferred ADSs through public offering or broker trades in the future, including preferred

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shares held by Skyblock Limited. Additional offerings or sales of preferred shares and preferred ADSs by us or the Justice persons, or the public perception that such offerings or sales may occur, could have an adverse effect on the market price of our preferred shares and preferred ADSs.

Risks Relating to the Russian Federation

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

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

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

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

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

For example, the Russian Federation was involved in armed conflict with Georgia in August 2008, and differing views on the Georgia conflict have had an impact on the relationship between the Russian Federation, the European Union, the United States and certain former Soviet Union countries. In addition, the relationship between Ukraine and the Russian Federation has in the recent past been subject to significant strain for a number of reasons, including Ukraine's failure to pay and accumulation of payment arrears relating to the supply of energy resources, Ukraine's possible accession to NATO and the European Union. More recently, Russia's relations with Ukraine have reached an historic post-Soviet low point following renewed political instability in Ukraine that resulted in the departure from office of Mr. Yanukovich (Ukraine's former president), Russia's role in the subsequent accession of Crimea and Sevastopol to Russia, and widespread accusations that Russia is actively involved in or otherwise supporting insurgents in eastern Ukraine in their struggle against Ukraine's central authorities. This has resulted in a substantial deterioration in Russia's

relations with the United States, the European Union and other countries such as Canada, Japan and Australia, and has led to the imposition of sanctions against certain Russian individuals and entities and has contributed to certain volatility in the Russian

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economy and a deterioration in Russia's macroeconomic condition and prospects. See Risks Relating to the Russian Federation. The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs. If such tensions intensify or new tensions emerge between the Russian Federation and Ukraine, Georgia, the European Union, the United States or any other countries, leading potentially to the imposition of further trade sanctions or embargoes, the Russian economy will likely experience further volatility and deterioration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The sanctions imposed by the United States and the European Union in connection with tensions between Russia and other countries so far have had an adverse effect on the Russian economy, to which we are exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. See Risks Relating to the Russian Federation Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability. The governments of the United States and certain E.U. Member States, as well as certain E.U. officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. For example, the United States has authority to

impose secondary sanctions threatening adverse action against companies

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outside U.S. jurisdiction participating in certain Russian oil projects, which could deter those companies from investing in the Russian economy; additional secondary sanctions could be adopted that could affect the willingness of companies acting outside U.S. jurisdiction to deal with Russia and Russian companies. There have also been proposals to cut off Russia from the international SWIFT payment system and Russia's counter-proposals to disrupt international payment systems, which could disrupt ordinary banking services in Russia and any cross-border trade.

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

Economic risks

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

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

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

According to the

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

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

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

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

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

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

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

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

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

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

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

Political and social risks

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

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

corruption and the government in general.

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

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

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

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

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

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

Legal risks and uncertainties

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

Most of the existing subsoil licenses in Russia date from the Soviet era. During the period between the dissolution of the Soviet Union in August 1991 and the enactment of the first post-Soviet subsoil licensing law in the summer of 1992, the status of subsoil licenses and Soviet-era mining operations was unclear, as was the status of the regulatory authority governing such operations. The Russian government enacted the Procedure for Subsoil Use Licensing on July 15, 1992, which came into effect on August 20, 1992 (the **Licensing Regulation**). As was common with

legislation of this time, the Licensing Regulation was passed without adequate consideration of transition provisions and contained numerous gaps. In an effort to address the problems in the Licensing Regulation, the Ministry of Natural Resources (the **MNR**) issued ministerial acts

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

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

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

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

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

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

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

conflicting local, regional and federal rules and regulations;

rapid enactment of many laws and regulations resulting in their ambiguities and inconsistencies;

large-scale continuing reforms in almost all legal matters;

the lack of fully developed corporate and securities laws;

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

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

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

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

difficulty in enforcing court orders;

a high degree of discretion or arbitrariness on the part of governmental authorities; and

still-developing bankruptcy procedures that are subject to abuse. See **Risks Relating to Our Financial Condition and Financial Reporting** We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.

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

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

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

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

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

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

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

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

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

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

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

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

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

this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such entities; and

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the effective parent gives obligatory directions to the effective subsidiary based on the above-mentioned decision-making capability.

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

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

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

decisions with respect to a reorganization;

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

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

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

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

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

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no single central registration system in Russia. Share registers can be maintained only by licensed registrars located throughout Russia. Regulations have been adopted regarding the licensing conditions for

such registrars, as well as the procedures to be followed by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally

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

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

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

a profit tax;

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

a mineral extraction tax; and

property and land taxes.

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

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

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

November 2014, Russian legislation was significantly revised in order to prevent unlawful use of low-tax jurisdictions for tax evasion in the Russian Federation. The amendments in the legislation set out the rules for the taxation of income of a foreign organization that is deemed to be a controlled foreign company. A foreign organization is recognized as a controlled foreign company if it is not a tax resident of the Russian Federation and the participation interest of the controlling legal entities or individuals in the organization is more than 10%. The transition period provides for a gradual reduction in the size of non-taxable profit, in particular, to 50 million rubles, 30 million rubles and 10 million rubles in 2015, 2016 and 2017 and thereafter, respectively. Starting from 2015, these changes in tax regulations could increase the tax burden on companies which are recognized to be controlling of foreign companies. In addition, Russian companies are required to disclose

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information about controlled foreign companies to the Russian tax authorities. All of these measures are intended to ensure the transparency of economic transactions, including foreign trade transactions. Disclosure of beneficial ownership, beneficial recipients of income and tax residence of legal entities at their actual place of business is, according to the new legislation, a prerequisite for the application of tax preferences, including reduced tax rates under international double tax treaties. In November 2014, Russia ratified the Convention on Mutual Administrative Assistance in Tax Matters which provides for the potential exchange of tax information, including simultaneous tax inspections with Member States of the Council of Europe and member countries of the Organization for Economic Co-operation and Development (OECD), which signed the convention, as well as for assistance in the collection of taxes on their territories. Furthermore, starting from June 30, 2014, the Federal Law No. 173-FZ entered into force, which regulates the procedure of interaction of financial market entities with foreign tax authorities, primarily within the bounds of the U.S. law Foreign Account Tax Compliance Act (FATCA).

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

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

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

consequences of the adoption of this law.

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

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

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

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

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

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

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

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

according to the Strategic Industries Law, is deemed to transfer control, as described in Item 4. Information on the Company Regulatory Matters The Strategic Industries Law,

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will be subject to prior approval from the state authorities. Likewise, a sale to a foreign investor or its group of entities of a stake in Mechel which provides control (as defined in the Strategic Industries Law) over Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant, Urals Stampings Plant and Port Posiet, will also be subject to prior approval in accordance with the Strategic Industries Law.

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

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

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

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

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

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

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

Item 4. Information on the Company

Overview

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

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

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

Mechel PAO is a public joint-stock company incorporated under the laws of the Russian Federation. From the date of our incorporation on March 19, 2003 until July 19, 2005, our corporate name was Mechel Steel Group OAO. We conduct our business through a number of subsidiaries. We are registered with the Federal Tax Service of the Russian Federation under main state registration number (OGRN) 1037703012896. Our principal executive offices are located at Krasnoarmeyskaya Street, 1, Moscow 125167, Russian Federation. Our telephone number is +7 495 221 8888. Our Internet addresses are www.mechel.com and www.mechel.ru. Information posted on our website is not a part of this document. We have appointed CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011, as our authorized agent upon which process may be served for any suit or proceeding arising out of or relating to our shares, ADSs or the deposit agreements.

Mining Segment

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

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

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

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

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

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

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

Steel Segment

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

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

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

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

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

Power Segment

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

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Competitive Strengths

Our main competitive strengths are the following:

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

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

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

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

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

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

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

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

High degree of vertical integration

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

We believe that our internal supplies of coke, iron ore concentrate and ferrosilicon give us advantages over other steel producers, such as higher stability of operations, better quality control of end products, reduced

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production costs, improved flexibility and planning latitude in the production of our steel and value-added steel products and the ability to respond quickly to market demands and cycles. In 2015, we were fully self-sufficient with respect to coke and ferrosilicon; we were approximately 36% self-sufficient with respect to iron ore concentrate; and we satisfied approximately 29% of our electricity needs internally. We believe that the level of our self-sufficiency in raw materials gives our steel business a competitive advantage.

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

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

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

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

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

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

In June 2008, pursuant to the terms of our subsoil license for the Elga coal deposit we began construction of a private rail line, which we own and control subject to applicable regulation. In December 2011, we finished laying track for the rail line in accordance with the terms of the license. The 321 kilometer-long rail line is now in operation and we

are able to use it for transportation of coal currently produced at the Elga deposit. The rail line connects the Elga coal deposit with the Baikal-Amur Mainline (at the Ulak railway station), which, in turn, provides access to the Russian rail network, in general, and Pacific Ocean ports, in particular. We will further develop the rail line to increase its capacity in line with our coal production plans. We anticipate that the Elga rail

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line will not only provide an avenue for delivery of coal produced at the Elga coal deposit, but will eventually serve as the transport route for coal, iron ore and other raw materials mined in the adjacent deposits.

One of the lowest-cost metallurgical coal producers

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

Strategically positioned to supply key growth markets

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

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

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

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

Established distribution and sales platform

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

We also have Mechel Service Global's distribution network which conducts sales of our steel products in Russia, the CIS and Europe. Through our distribution network in Russia and the CIS we sell a whole range of steel products manufactured by our plants. In case of sales to the European Union, we focus on sales of high value-added products, primarily high-quality rolled steel products and forgings produced by our Urals plants, through Mechel Service Belgium. Our companies in Germany, Austria and the Czech Republic provide customers with a wide range of

services for metal processing. Mechel Service Global sales accounted for 48.0% of our steel segment sales and 27.7% of our total sales in 2015. Approximately 91.9% of Mechel Service Global sales were sold domestically. Sales to companies within our group accounted for 1.2% of total sales of Mechel Service Global (including intra-group sales) in 2015.

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

Strong and focused management team

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

Business Strategy

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

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

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

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

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

Another strategic priority is development of our logistics capabilities. Our own railcar fleet is to ensure the balance between transportation security and cost efficiency. Development of the cargo-handling capacity of Port Posiet is crucial for continuous shipments of our coal products in the Asia-Pacific region. Growing production of

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export-oriented coal in our mining segment will require further expansion of port capacities on our main export routes.

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

Our History and Development

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

Mining Segment

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

Description of key products

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

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

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

Chemical products. Chemical products are hydrocarbon products obtained as a by-product of the production of coke. We produce chemical products in our subsidiaries Moscow Coke and Gas Plant and Mechel Coke. We offer our customers coal tar, naphthalene and other compounds. Worldwide, coal tar is used in diverse applications, including in

the production of electrode pitch, pitch coke, coal-tar oils, naphthalene, as well as boiler fuel. Naphthalene, a product of the distillation of coal tar, is used by the chemical industry to produce chemical compounds used in synthetic dyes, solvents, plasticizers and other products.

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

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

Mining process

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

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

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

Coal production

Our coal production consists of the following mines in Russia:

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

Olzherassky Open Pit

Novaya Underground

Krasnogorsky Open Pit

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

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

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

(1) Volumes are reported on a wet basis.

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

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

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

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

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

Yakutugol mines

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

Yakutsk, is located on the Lena River in south central Yakutia.

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

Kangalassky Open Pit and Dzhebariki-Khaya Underground are located in the Lensky basin which covers an area of 750,000 square kilometers and lies near Yakutsk.

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

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

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

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

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

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

Total Coal	9.2	100%	9.4	100%
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(1) Volumes are reported on a wet basis.

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

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

Elgaugol mine

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

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

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

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

Mine	Area License (plot) (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status ⁽¹⁾	Year Production Commenced	Surface Land Use Rights
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Elga Open Pit	03730	144.1	Open pit	2100	May 2020	In production	2011	Lease
	(Elga)							

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

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

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

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

(1) Volumes are reported on a wet basis.

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

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

In 2009, the general scheme of the Elga coal complex development and the plan for initial mine block development were prepared. The plan for initial mine block development was subsequently approved by governmental authorities. In 2011, the project documentation of the first stage of the Elga coal complex construction was prepared and subsequently approved by governmental authorities. In November 2011, we concluded a contract for engineering,

procurement and construction of a permanent housing complex for 3,000 miners and workers who will operate the Elga coal complex. Construction works are in progress, and miners live in a temporary settlement with all necessary amenities. In late 2014, we completed the construction of a pilot washing plant with a capacity of up to 2.7 million tonnes per annum and the capability to operate year-round.

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

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

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

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

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

Southern Kuzbass mines

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

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

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

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

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

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

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

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

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

- (2) We failed to commence commercial production in 2009 as required by the subsoil license due to unfavorable mine economics. We expect to commence production at the Rapsadsk license area in the fourth quarter of 2018 provided coal prices recover sufficiently.
- (3) License held by Tomusinsky Open Pit, a subsidiary of Southern Kuzbass Coal Company.
- (4) We failed to commence commercial production in 2011 as required by the subsoil license due to unfavorable mine economics.
- (5) License held by Resurs-Ugol OOO, a subsidiary of Southern Kuzbass Coal Company.

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

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

(1) Volumes are reported on a wet basis.

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

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

(1) Includes Turkey only.

Coal washing plants

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

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

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

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

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

Coke and chemical products production

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Iron ore and concentrate production

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

Korshunovskaya Washing Plant is located outside of the town of Zheleznogorsk-Ilimsky, 120 kilometers east of Bratsk in the Irkutsk region. Korshunovsky Open Pit is located near the washing plant and Rudnogorsky Open Pit is located about 85 kilometers to the northwest of the washing plant. We have operated these iron ore mines and the washing plant since 2003 when we acquired Korshunov Mining Plant. Both mines produce a magnetite ore (Fe₃O₄) and the washing plant produces iron ore concentrate with a standard iron content of 62%. Product is shipped by rail to domestic customers as well as for export sales. All of the sites are served by regional public highways and a nearby federal motorway. The area is served by the Baikal-Amur Mainline, which connects the Trans-Siberian Mainline with

China and Yakutia.

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

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

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

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

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

(1) Volumes are reported on a wet basis.

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

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

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

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

Limestone production

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

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

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

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

	2015	2014
	(In thousands of tonnes)	
Pugachevsky Open Pit	1,637	1,762
Sales of mining segment products		

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

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

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

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

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

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

Marketing and distribution

In 2015, our Russian domestic sales were conducted directly by our own production facilities and our export sales were conducted by Mechel Carbon, based in Baar, Switzerland, and Mechel Carbon Singapore. We generally do not

involve traders in the sales and distribution of our mining products and we have had long-standing relationships with end users of our mining products.

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

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

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

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

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

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

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

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

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

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

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

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

Export sales

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

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

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

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

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

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

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

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

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

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

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

Market share and competition

Coal

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

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

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

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

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According to data from the Central Dispatching Department, companies' websites and our estimates, in 2015, we were the seventh largest steam coal producer in Russia, with a 3.3% share of total production by volume. The following table lists the main Russian steam coal producers in 2015, the groups to which they belong, their steam coal production volumes and their share of total Russian steam coal production volume.

Group	Company	Steam Coal Production (Thousands of Tonnes)	% of Steam Coal Production by Volume
SUEK AO	SUEK-Kuzbass OAO	24,695	8.5%
	Borodinsky Open Pit AO	18,783	6.5%
	Tugnuisky Open Pit OAO	12,250	4.2%
	SUEK-Khakassia OOO	12,006	4.1%
	Berezovsky Open Pit AO	6,263	2.1%
	Urgalugol OAO	5,600	1.9%
	Primorskugol OAO	4,348	1.5%
	Nazarovsky Open Pit AO	3,428	1.2%
	Kharanorsky Open Pit OAO	2,889	1.0%
	Chitaugol OOO	944	0.3%
	Vostochnoe Mine Office ZAO	810	0.3%
	Arctic development OOO	195	0.1%
	SUEK Total	92,211	31.7%
	UMMC	Kuzbassrazrezugol Coal Company OAO	38,630
Baikainskaya Shaft Mine OOO		84	0.0%
UMMC Total		38,714	13.3%
SDS Holding Company	Chernigovets AO	6,353	2.2%
	Mayskoe Mine Office OOO	5,385	1.8%
	Listvyazhnaya Shaft Mine OOO	4,769	1.6%
	Salek ZAO	4,230	1.4%
	Kiselevsky Open Pit Mine OOO	2,555	0.9%
	Yuzhnaya Shaft Mine OAO	2,283	0.8%
	Sibenergougol OOO	2,016	0.7%
	Prokopyevsky Open Pit Mine ZAO	1,342	0.5%
	SDS Total	28,933	9.9%
En+ Group	Vostsibugol OOO (Irkutsk region)	10,894	3.8%
	Vostsibugol OOO (Irbeysky Open Pit Mine)	1,843	0.6%
	Tuvinskaya Mining Company OOO	683	0.2%
	En+ Total	13,420	4.6%
Russian Coal OAO	Krasnoyarskkraiugol OAO	5,340	1.9%
	Stepnoy Open Pit Mine AO	4,038	1.4%
	Amurugol AO	3,293	1.1%
	Sayano-Partizanskiy Open Pit OOO	604	0.2%
	Russian Coal Total	13,275	4.6%
Kuzbasskaya Toplivnaya Company PAO	Kuzbasskaya Toplivnaya Company	11,002	3.8%

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

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

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

Iron ore

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

*Mineral reserves (coal, iron ore and limestone)**Coal and iron ore*

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

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

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

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

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cases, it is reasonably likely that an incumbent subsoil user will be granted license extension through the end of the expected operational life of the deposit, provided that the licensee is not in violation of the material terms of the license. The cost for the license extension is not substantial. See **Regulatory Matters Subsoil Licensing in Russia Extension of licenses**. We have received extension of certain of our subsoil licenses which expired and we intend to extend the licenses for all deposits expected to remain productive subsequent to their license expiry dates. However, license extension is not guaranteed and is to a certain extent subject to the discretion of regulatory authorities. See

Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits, **Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing** subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and **Regulatory Matters Subsoil Licensing in Russia**.

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

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

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

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

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

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

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

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

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

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

(2) In estimating the reserves, we used the following average prices: \$68 per tonne (FCA basis) for coking coal concentrate and \$37 per tonne (FCA basis) for raw steam coal.

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

(4) Mined coal is processed at the Neryungrinskaya Washing Plant. The average coal recovery factor is estimated to be 63%.

(5) Coal is sold as ROM without processing.

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

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

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

(2) In estimating the reserves, we used the following average prices: \$86 per tonne (FCA basis) for coking coal concentrate and \$60 per tonne (FCA basis) for raw steam coal.

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

(4) Mined coal is processed at the Elginskaya Washing Plant. The average coal recovery factor is estimated to be 40%.

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

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

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

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

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

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

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

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

Limestone

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

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

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

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

Table of Contents**Steel Segment**

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

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

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

Description of key products

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

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

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

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

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

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

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

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

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

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

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

Steel manufacturing process and types of steel

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

In BOF steel manufacturing, steel is produced with less than 2% carbon content. The principal raw materials used to produce steel are liquid pig iron and scrap metal. The molten steel, depending on the products in which it

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will be used, undergoes additional refining and is mixed with manganese, nickel, chrome, titanium and other components to give it special properties. Approximately 72% of the world's steel output is made in BOFs, according to CRU.

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

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

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

Ferrosilicon manufacturing process

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

Steel segment production facilities

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

Chelyabinsk Metallurgical Plant

Chelyabinsk Metallurgical Plant is an integrated steel mill which produces flat and long carbon and stainless steel products, rail and beam sections and semi-finished products. Semi-finished products are used for further processing in Russia or our internal needs. Chelyabinsk Metallurgical Plant also produces pig iron which is used in the manufacturing of steel. The plant sources all of its metallurgical coke needs from Mechel Coke and most of its iron

ore concentrate needs from Korshunov Mining Plant. Its customer base is largely comprised of companies from the construction and engineering industries, as well as ferrous metallurgy. We acquired Chelyabinsk Metallurgical Plant in 2001.

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

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

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

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

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

In December 2010, Mechel Materials started assembling the main manufacturing equipment of the grinding-mixing complex for Portland blast-furnace slag cement production with 1.6 million tonnes capacity per annum in the territory of Chelyabinsk Metallurgical Plant. The main raw material is blast furnace slag produced by Chelyabinsk Metallurgical Plant. This complex is the first Russian facility to produce high-quality Portland blast-furnace slag cement of certain grades (CEMIII/A, CEMIII/B, CEMIII/C). Portland blast-furnace slag cement is widely used in the construction industry for the production of reinforced concrete structures. The general contractor is Austrian FMW GmbH. The amount to be invested is 5,092 million rubles. In 2013, construction and assembly and commissioning works on the basic process equipment were completed and production in the mode of experimental-industrial testing

commenced. In 2014-2015, we mastered production of three grades of cement (CEMIII/A-32,5N, CEMIII/A-42,5N, CEMII/A-42,5N) and ground granulated blast-furnace slag which is a new material for concrete and cement production. In 2015, most of the main technological equipment was commissioned. Production of experimental products in the mode of experimental-industrial testing amounted to 105.9 thousand tonnes in 2015.

Table of Contents*Izhstal*

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

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

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

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

Beloretsk Metallurgical Plant

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

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

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

Rolling	630	93.6%
Wire products	599	80.4%

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

Table of Contents*Vyartsilya Metal Products Plant*

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

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

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

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

Urals Stampings Plant

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

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

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

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

Mechel Nemunas

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

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

utilization rate and the planned increase in capacity for Mechel Nemunas's principal production area.

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

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

Bratsk Ferroalloy Plant

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

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

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

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Increase (2016-2018)
Ferrosilicon	92.9	99.3%	

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

Table of Contents**Sales of steel segment products**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The end users of our steel products vary. Our rebar is principally used in the construction industry. The main end users of our wire rod are construction companies and hardware production works. Our other long steel products are used in various moving parts manufactured by the automotive industry, as well as the engineering, pipe and construction

industries. Our flat steel products are used in the construction (covers, floor plates) and pipe industries. Our forgings and stampings are primarily used in the engineering and pipe industries. The main end users of our wire products are the construction, mining, engineering and other industries.

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

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

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

Marketing and distribution

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

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

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

Domestic sales

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

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

Table of Contents*Export sales*

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

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

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

Distribution

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

Market share and competition

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

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

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

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

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

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

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

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

Source: Company websites; Metal Expert.

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

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

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

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

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

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

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The following tables set forth additional information regarding our 2015 market shares in Russia for various categories of steel products.

All long products (excluding square billets)

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
EVRAZ	5,088	29.0%
Mechel	2,960	16.9%
NLMK	2,147	12.2%
Severstal	1,717	9.8%
MMK	1,686	9.6%
Metalloinvest	609	3.5%
Other	3,328	19.0%
Total	17,535	100.0%

Source: Metal Expert.

Long products Wire rod⁽¹⁾

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

Source: Metal Expert.

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

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

Source: Metal Expert.

Table of Contents*Flat stainless steel*

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

Source: Metal Expert.

Wire products

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

Source: Metal Expert.

Wire products Spring wire

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

Total	54.9	100.0%
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Source: Metal Expert.

Wire products High-tensile wire

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

Source: Metal Expert.

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

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

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

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

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

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

Source: Metal Expert.

Raw materials

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

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

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

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

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

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

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

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

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

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

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

Trade restrictions

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

of Russian steel. In the future the Russian government may restore export duties on steel products and may also impose export duties on some raw materials, such as coal and iron ore concentrate.

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

Quartzite Production

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

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

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

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

Power Segment

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

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

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

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

Southern Kuzbass Power Plant uses steam coal as fuel, which is supplied to it from local sources, including our Southern Kuzbass Coal Company. In 2015, it consumed 1.6 million tonnes of steam coal sourced from Southern Kuzbass Coal Company.

The generation facilities of Southern Kuzbass Power Plant are listed below:

Generation Unit No.	Year of Manufacture	Month and Year of Commissioning at Southern Kuzbass Power Plant	Installed Capacity (MW)	Electricity Production in 2015 (million kWh)
VK-50-2 LMZ	1950	April 1951	53	123.7
VK-50-2 LMZ	1950	November 1951	53	325.6
VK-50-2 LMZ	1950	August 1952	53	97.8
VK-50-2 LMZ	1952	February 1953	53	333.4
T-115-8,8 LMZ	1996	December 2003	113	336.2
T-88/106-90 LMZ	1953	July 1954	88	529.2
VK-50-2 LMZ	1954	December 1954	53	101.8
T-88/106-90 LMZ	1953	September 1956	88	587.7
Total			554	2,435.5

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

Kuzbass Power Sales Company

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

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

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

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Mechel Energo

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

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

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

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

Capital Investment Program

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

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

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

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

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

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

(1)

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

Research and Development

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

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

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

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

Insurance

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

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

Environmental Protection

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

Our environmental policy has the following key components:

implement formal environmental management systems that are aligned with applicable international standards;

identify, assess, monitor, control and manage significant environmental risks;

establish clear and meaningful environmental objectives and targets aimed at continuous improvement;

implement, maintain and regularly test emergency response plans;

identify potential environmental emergencies; and

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

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Regulatory Matters

Licensing of Operations in Russia

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

the use of subsoil, which is described in more detail in [Subsoil Licensing in Russia](#) below;

the use of water resources;

the emission and discharge of pollutants into the environment;

the handling of waste of a I-IV hazard class;

the handling of industrial explosives;

operation of explosive and fire and chemically hazardous production facilities of a I-III hazard class;

fire control and security;

medical operations;

mine surveying;

loading and unloading operations relating to dangerous goods;

transportation activities;

storage, processing and sale of ferrous and non-ferrous scrap;

works with information classified as state secret;

manufacturing of equipment for nuclear facility; and

operation of radiation source.

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

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

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

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

As part of their obligations under licensing regulations and the terms of our licenses and permits, some of our companies must comply with numerous industrial standards, employ qualified personnel, maintain certain

equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing in Russia

In Russia, mining minerals requires a subsoil license from Rosnedra with respect to an identified mineral deposit. In addition to a subsoil license, a subsoil user needs to obtain rights (through ownership, lease or other right) to use a land plot covering the surface of the area where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The primary law regulating subsoil licensing is the Federal Law On Subsoil, dated February 21, 1992, as amended (the **Subsoil Law**), which sets out the regime for granting licenses for the exploration and extraction of mineral resources. The Procedure for Subsoil Use Licensing, adopted by Resolution of the Supreme Soviet of the Russian Federation on July 15, 1992, as amended (the **Licensing Regulation**), also regulates the licensing of exploration and extraction of mineral resources. According to both the Subsoil Law and the Licensing Regulation, subsurface mineral resources are subject to the jurisdiction of the federal authorities.

Among different licenses required for mining minerals in Russia, the two major types of licenses are: (1) an exploration license, which is a non-exclusive license granting the right of geological exploration and assessment within the license area, and (2) an extraction license, which grants the licensee an exclusive right to produce minerals from the license area. In practice, many of the licenses are issued as combined licenses, which grant the right to explore and produce minerals from the license area. A subsoil license defines the license area in terms of latitude, longitude and depth. The subsoil user has the right to develop and use, including sell, mineral resources extracted from the license area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil mineral resources.

There are two major types of payments with respect to the extraction of minerals: (1) periodic payments for the use of subsoil under the Subsoil Law; and (2) the mineral extraction tax under the Russian Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The Subsoil Law-mandated payments are not material to our mining segment's results of operations. For coal, the basic rate of the mineral extraction tax ranges from 11 to 57 rubles per tonne depending on the type of coal. At the same time, the actual rate of tax in respect of extracted coal is subject to indexation on a quarterly basis taking into account deflator coefficients adopted by the Ministry of Economic Development of the Russian Federation. For iron ore and for nickel, the mineral extraction tax is 4.8% and 8%, respectively. In 2015, mineral extraction taxes amounted to 1,026 million rubles, which are included in the statement of income and comprehensive income as extraction related overheads.

Currently, extraction licenses and combined licenses are awarded by tender or auction conducted by special auction commissions of Rosnedra. While such tender or auction may involve a representative of the relevant region, the separate consent of regional authorities is generally not required in order to issue subsoil licenses. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, extraction licenses may also be

issued without holding an auction or tender, for instance to holders of exploration licenses who discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue extraction licenses for common mineral resources, such as clay, sand or limestone.

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Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a mining allotment, i.e. a geometric block of subsoil. Preliminary mining allotment boundaries are determined at the time the license is issued. Following the development and approval of a technical plan in accordance with established procedure, documents defining the adjusted mining allotment boundaries are incorporated as an integral part into the license. Pursuant to Resolution No. 118 of the Government of the Russian Federation dated March 3, 2010, as amended, a special commission comprised of representatives from the Ministry of Natural Resources and Ecology, Rosnedra, Rosprirodnadzor, Rostekhnadzor and relevant local authorities approve development plans and other project documentation relating to the use of subsoil plots.

The term of the license is set forth in the license. Under the Subsoil Law, exploration licenses are generally issued for a term of up to five years and up to 10 years for geological surveys of internal sea waters, territorial sea waters or the continental shelf of the Russian Federation. In accordance with amendments to the Subsoil Law that entered into force in January 2014, exploration licenses with respect to subsoil plots partially or fully located in certain constituent entities of the Russian Federation can be issued for a term of up to seven years. Extraction licenses are issued for the term of the expected operational life of the field based on a feasibility study that provides for rational use and protection of the subsoil. In the event that a prior license with respect to a particular field is terminated early (for example, when a license is withdrawn due to non-usage of the licensed subsoil), an extraction license may have a one year term until a new licensee is determined, but is generally granted to another user for the term of the expected operational life of the field based on a feasibility study. Licensees are also allowed to apply for extensions of such licenses for the purposes of completing the exploration and development of the field, or remediation activities in the absence of violations of the terms and conditions of the license. The term of a subsoil license runs from the date the license is registered with Rosnedra.

Issuance of licenses

Subsoil licenses are issued by Rosnedra. Most of the currently existing extraction licenses owned by companies derive from: (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganized in the course of post-Soviet privatizations; or (2) tender or auction procedures held in the post-Soviet period. The Civil Code, the Subsoil Law and the Licensing Regulation contain the major requirements relating to tenders and auctions. The Subsoil Law allows extraction licenses to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration license at its own expense during the exploration phase.

Extension of licenses

The Subsoil Law permits a subsoil licensee to request an extension of an extraction license for the term of the expected operational life of the subsoil plot in order to complete the extraction from the subsoil plot covered by the license or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user is not in violation of the terms and conditions of the license and the relevant regulations.

In order to extend the period of a subsoil license, a company must file an application with territorial authorities of Rosnedra to amend the license. In addition, as we have seen in practice, a subsoil licensee may be required to prepare and provide to the authority amended technical documentation and development plan of the deposit under the license justifying the requested extension. The costs associated with the license extension are generally not substantial and mainly relate to preparing amendments to the technical documentation and development plan of the subsoil plot. Application to extend the period of subsoil license is typically made six months before its expiration.

To the best of our knowledge, derived from publicly available information, the relevant governmental authorities when determining whether to approve an amendment (including an extension) of a license consider the following: (1) the grounds for the amendments, with specific information as to how the amendments may

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impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the license; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended license. We have successfully extended certain of our subsoil licenses which were due to expire for the entire term of the expected operational life of the subsoil plots. The terms of the licenses were extended in accordance with the amendments we made to the development plans of the subsoil plots. Furthermore, as evidenced by a number of court cases during the past several years, license extensions are being rejected predominantly on the grounds of subsoil users being in violation of the material terms of the licenses. Though current regulation does not specify what license terms are material, current practice suggest that regulatory authorities tend to treat as material terms of the license the terms related to license payments, production levels and operational milestones.

The factors that may, in practice, affect a company's ability to obtain the approval of license amendments (including extensions) include: (1) its compliance with the license terms and conditions; (2) its management's experience and expertise relating to subsoil issues; and (3) the relationship of its management with federal and/or local governmental authorities, as well as local governments. For a description of additional factors that may affect Russian companies ability to extend their licenses, see Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits. See also Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Weaknesses relating to the Russian legal system and legislation create an uncertain investment climate.

Transfer of licenses

Licenses may be transferred only under certain limited circumstances that are set forth in the Subsoil Law, including the reorganization or merger of the licensee or in the event that an initial licensee transfers its license to a newly established legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or extraction activity covered by the transferred license.

Maintenance and termination of licenses

A license granted under the Subsoil Law is accompanied by a licensing agreement. The law provides that there will be two parties to any subsoil licensing agreement: the relevant state authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil.

Under a licensing agreement, the licensee makes certain environmental, safety and extraction commitments. For example, the licensee makes an extraction commitment to bring the field into extraction by a certain date and to extract an agreed-upon volume of natural resources each year. The licensing agreement may also contain commitments with respect to the social and economic development of the region. When the license expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a license are based on mandatory rules contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

The fulfillment of a license's conditions is a major factor in the good standing of the license. If the subsoil licensee fails to fulfill the license's conditions, upon notice, the license may be terminated or the subsoil user's

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rights may be restricted by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or extraction output as set forth in a license, it may apply to amend the relevant license conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for license termination. A licensee can be fined or the license can be suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A license may also be terminated for violations of material license terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation or termination of licenses. Consistent underproduction and failure to meet obligations to finance a project would also be likely to constitute violations of material license terms. In addition, certain licenses provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for terminating the license.

Rosprirodnadzor routinely conducts scheduled and unscheduled inspections for compliance by subsoil users with the terms of their licenses and reports violations to Rosnedra. Rosnedra examines Rosprirodnadzor's reports and, if it finds that these violations constitute sufficient grounds for terminating the license, the Commission for Termination of Subsoil Licenses considers the nature of these violations and recommends that Rosnedra either (i) revoke the license; (ii) notify the subsoil user about the identified violations and potential termination of the license if the subsoil user fails to rectify the identified violations within a prescribed period of time; or (iii) consider that the actions described in (i) and (ii) above are unreasonable and accept the information provided by the subsoil user.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to the termination of a license or the refusal to change an existing license, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases prior to termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three month period, no termination or other action may be taken.

Land Use Rights in Russia

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction, on a land plot without appropriate surface land use rights. Land use rights are needed and obtained for only the portions of the license area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code, companies generally have ownership or lease rights with regard to land in the Russian Federation.

A majority of land plots in the Russian Federation is owned by federal, regional or municipal authorities who, through bidding (carried out in the form of an auction) or without bidding, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law On Introduction of the Land Code, dated October 25, 2001, as amended, with certain exceptions (such as for the land plots occupied with transportation, communications and utilities lines, for which companies may re-register the right of perpetual use until January 1, 2016), required companies using land pursuant to rights of perpetual use by July 1, 2012 either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority acting as owner of the land. Failure to transfer the

title by January 1, 2013 triggers administrative liability. In case of the lease, the companies can still purchase such land after July 1, 2012 provided that they have registered the lease relating to the land.

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Our mining subsidiaries generally have entered into long-term lease agreements for their surface land within the specified license mining area. Under Russian law, a lessee generally has a right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any land lease agreement for a term of one year or more must be registered with the relevant state authorities.

Environmental Legislation in Russia

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the emission and discharge of substances into the air and water, the formation, distribution and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law On Environmental Protection, dated January 10, 2002, as amended (the **Environmental Protection Law**), as well as by a number of other federal, regional and local legal acts.

Since 2008, the Ministry of Natural Resources and Ecology has been working on significant amendments to the Environmental Protection Law and other regulations. These amendments were codified in the Federal Law No. 219-FZ, dated July 21, 2014, the Federal Law No. 458-FZ, dated December 29, 2014 and the Federal Law No. 404-FZ, dated December 29, 2015, which have already come into force or are gradually coming into force. The purpose of the amendments is to strengthen liability for companies non-compliance with environmental laws and regulations, as well as to improve the distribution of functions among state environmental agencies at both the federal and regional levels.

The amendments, in particular, divide objects that have a negative impact on the environment into four categories depending on the degree of impact on the environment. The environmental protection requirements that apply differ depending on the relevant impact category and include environmental impact charges, permission documents and control procedures. The first category includes objects that have a significant negative impact on the environment (to which, therefore, the strictest environmental protection requirements apply) and the fourth category includes objects that have minimal environment impact. Among other things, the adopted amendments contemplate that starting from 2020 charges for environmental impact exceeding regulatory thresholds will increase. Furthermore, the liability for certain environmental violations has been enhanced recently, and the fines for certain environmental offenses, for example, in connection with violations of water use requirements, increased by 15 times the current amounts. See

Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry More stringent environmental laws and regulations or more stringent enforcement or findings that we have violated environmental laws and regulations could result in higher compliance costs and significant fines and penalties, cleanup costs and compensatory damages, or require significant capital investment, or even result in the suspension of our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Pay-to-pollute

The Environmental Protection Law and other Russian environmental protection legislation establish a pay-to-pollute regime administered by federal and local authorities. Pay-to-pollute (or payments for environmental pollution) is a form of mandatory reimbursement to the Russian government for damage caused to the environment.

The Russian government has established standards relating to the permissible impact on the environment and, in particular, standards of permissible emissions and discharges and waste disposal limits. In case of non-compliance with the statutory standards a company may obtain temporary approved limits on emissions and discharges on the basis of permits valid only during the period of implementation of environmental measures. The establishment of

limits is allowed only upon the availability of a plan for emissions and discharges reduction

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agreed with Rosprirodnadzor. The emissions and discharges reduction plan is required to be implemented within a specific period with an annual submission of a report on its implementation to Rosprirodnadzor. Rosprirodnadzor may revoke the limits, if the company fails to implement measures to reduce emissions and discharges in a timely manner. If, by the end of that period, the company's emissions and discharges are still in excess of the statutory standards, a new plan must be submitted to Rosprirodnadzor for review and approval in order to receive new limits.

Fees for the emission/discharge per tonne of each contaminant into air and water and fees for waste disposal are established by governmental authorities. These fees are determined on a sliding scale for both the statutory standards and individually approved limits on emissions and discharges, as well as for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory standards, intermediate fees are imposed for pollution within the individually approved temporary limits (within limit fees; exceed the fees within the statutory standards by 5 times) and the highest fees are imposed for pollution exceeding such limits (above-limit fees; exceed the fees within the individually approved temporary limits by 5 times). Thus, above-limit fees exceed the fees within the statutory standards by 25 times. In accordance with recent amendments to the Environmental Protection Law, starting from 2020, environmental impact charges exceeding regulatory thresholds in certain cases will be increased by up to 100 times current fees as statutorily prescribed. Payment of above-limit fees does not relieve the company from the responsibility as provided by Russian law, as well as the development and implementation of environmental measures aimed at reducing the negative impact on the environment. In 2015, we incurred above-limit fees and penalties in Russia in the amount of approximately 94.9 million rubles.

Environmental expert review

According to the Federal Law "On Environmental Expert Review" dated November 23, 1995, as amended (the **EER Law**), environmental expert review is a process of verifying compliance of business or operational documentation with environmental standards and technical regulations for the purpose of preventing a negative environmental impact of such business or operations. The EER Law provides for the main principles for conducting environmental expert review and for the type of documentation which is subject to such review.

In relation to our operating companies, all documentation underlying the issuance of some of our licenses is subject to environmental expert review.

Review of documentation related to capital construction is regulated under the Urban Development Code. The Urban Development Code provides for governmental inspection to verify the compliance of project documentation with relevant technical regulations, including sanitary-epidemiological and environmental regulations, requirements for the protection of objects of cultural heritage, as well as fire, industrial, nuclear and other kinds of safety requirements, and compliance with the results of engineering surveys with relevant technical regulations.

Environmental enforcement authorities

Currently state environmental regulation is administered by several federal services and agencies and their regional subdivisions, in particular, Rosprirodnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, Rosnedra, the Federal Agency for Forestry, the Federal Agency for Water Resources and some others. Included in these agencies' sphere of responsibility are environmental preservation and control, enforcement and observance of environmental legislation, drafting and approving regulations and filing court claims to recover environmental damages. The statute of limitations for such claims is 20 years.

The Russian federal government and the Ministry of Natural Resources and Ecology are responsible for coordinating the work of the federal services and agencies engaged in state environmental regulation.

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The structure of environmental enforcement authorities described above was established in 2004. This structure was subjected to certain changes in 2008 and 2010. In particular, the Ministry of Natural Resources was transformed into the Ministry of Natural Resources and Ecology. In late 2010, this structure was further changed and the powers previously held by Rostekhnadzor in the field of environmental protection regarding the limitation of negative industrial impact, waste treatment and state environmental impact assessments were transferred to Rosprirodnadzor which is coordinated by the Ministry of Natural Resources and Ecology.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose cleanup obligations on violators in lieu of or in addition to imposing fines or other penalties to compensate for damages.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the reclamation requirements are generally low; however, failure to comply with reclamation requirements can result in a suspension of mining operations.

Reclamation

We conduct our reclamation activities for land damaged by production in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of December 22, 1995, of the Ministry of Natural Resources. In general, our reclamation activities involve both a technical stage and a biological stage. In the technical stage, we backfill the pits, grade and terrace mound slopes, level the surface of the mounds, and add clay rock on top for greater adaptability of young plants. In the biological stage, we plant conifers (pine, larch, cedar) on horizontal and gently sloping surfaces and shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States. In 2015, we incurred reclamation costs in Russia of approximately 403 million rubles.

Kyoto Protocol

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations. This international agreement, known as the Kyoto Protocol, came into force on February 16, 2005. At the Doha 2012 United Nations Climate Change Conference Russia, Japan and some other countries announced suspension of their participation in the Kyoto Protocol. Therefore, we do not currently anticipate that further implementation of the Kyoto Protocol will have any material impact on our business.

Technical Regulations

We are subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Federal Law No. 184-FZ On Technical Regulation dated December 27, 2002, as amended (the **Technical Regulation Law**) has introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. It was expected that these rules or technical regulations would replace the previously adopted state

standards (the so-called GOSTs). However, most technical regulations have not been implemented yet, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes

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remain in force to the extent that they protect health, property, the environment and/or consumers. In addition, the federal standardization authority has declared GOSTs and interstate standards adopted before July 1, 2003 to be the applicable national standards.

In certain circumstances, companies are required to obtain certification of compliance with applicable technical regulations, standards and terms of contracts. A number of our products must be certified. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of such certificate, the applicant has the right to use the relevant compliance mark on its products.

Health and Safety Regulations in Russia

Due to the nature of our business, much of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law On Industrial Safety of Hazardous Production Facilities, dated July 21, 1997, as amended (the **Safety Law**). The Safety Law applies, in particular, to production facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and nonferrous metals are produced, where hazardous substances are stored and used (including allowed concentrations) and where certain types of mining is done. There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises and the foundry industry.

The Safety Law provides for hazardous production facilities of four classes from class IV to class I, with class IV being less hazardous and class I being the most hazardous. The safety and compliance requirements set up by the Safety Law apply to each facility depending on their class of hazard. Each existing hazardous production facility was to be re-registered with the state register by January 1, 2014 and be assigned with a hazard class. We re-registered hazardous production facilities at our operations in accordance with the applicable law.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of industrial sites is prohibited unless reviewed by a licensed expert organization and approved by Rostekhnadzor.

In addition, the Safety Law establishes an alternative form of industrial safety regulation that is based on risk assessment rather than prescriptions of obligatory requirements and standards imposed by Rostekhnadzor. A company that operates a hazardous production facility may develop a safety case, a document which describes that the facility has been designed and operated in a way to limit any risks of major accident. The Safety Law considers that in drafting the safety case, the relevant companies will be able to refer to specific safety arrangements and safety analyses as confirmation of having certain safety measures in place. To make these arrangements fully operational further changes will need to be introduced into relevant laws and regulations.

Companies that operate such production facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia of December 30, 2001, as amended (the **Labor Code**). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. Russian regulations require these companies to enter into contracts with professional emergency response units or create their own emergency response services in certain

cases, conduct personnel trainings and drills, create systems to cope with and notify the authorities of accidents and maintain these systems in good working order. Effective from January 1, 2014, companies that operate industrial sites of hazard classes I and II must implement industrial

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safety management systems to prevent accidents and incidents at hazardous production facilities and develop certain emergency response plans.

Companies that operate production sites of hazard classes I and II and handle hazardous substances in quantities set by the law must also prepare declarations of industrial safety which summarize the risks associated with operating a particular production site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration as well as a state industrial safety review are required for the issuance of a license permitting the operation of a hazardous production facility.

Rostekhnadzor has broad authority in the field of control and management of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous production facility where the accident took place bears all costs of an investigation. Rostekhnadzor officials have the right to access production sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may suspend for up to 90 days or initiate a court decision to terminate operations of companies and/or impose administrative liability on officers of such companies.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Russian Antimonopoly Regulation

The Federal Law On Protection of Competition, dated July 26, 2006, as amended (the **Competition Law**), provides for a mandatory pre-approval by the FAS of the following actions:

other than in respect to financial organizations, such as banks, an acquisition by a person (or its group) of more than 25% of the voting shares of a Russian joint-stock company (or one-third of the interests in a Russian limited liability company), except upon incorporation, and the subsequent increase of these stakes to more than 50% of the total number of the voting shares and more than 75% of the voting shares (one-half and two-thirds of the interests in a Russian limited liability company), or acquisition by a person (or its group) of ownership or rights of use with respect to the core production assets and/or intangible assets of an entity which are located in Russia if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity, or obtaining rights to determine the conditions of business activity of a Russian entity or to exercise the powers of its executive body by a person (or its group), or an acquisition by a person (or its group) of more than 50% of the voting shares (interests) of a foreign entity, which has supplied goods, works and/or services to Russia in an amount exceeding 1 billion rubles in the preceding year, or other rights to determine the conditions of business activity of such entity or to exercise the powers of its executive body, if, in any of the above cases, the aggregate asset value of an acquirer and its group together with a target and its group (excluding the asset value of the seller and its group, if as a result of the acquisition the seller and its group cease to determine the conditions of business activity of the target) exceeds 7 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles, or the total annual revenues of such acquirer and its group, and the target and its group for the preceding calendar year exceed 10 billion rubles and at the same time the total asset

value of the target and its group exceeds 250 million rubles;

mergers and consolidations of entities, other than financial organizations, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds 7 billion rubles, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 10 billion rubles;

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founding of a business entity, if its charter capital is paid by the shares (or limited liability company interests) and/or the assets (other than cash) of another business entity (other than financial organization) or the newly founded business entity acquires shares (or limited liability company interests) and/or the assets (other than cash) of another business entity based on a transfer act or a separation balance sheet and rights in respect of such shares (or limited liability company interests) and/or assets (excluding monetary funds) as specified above, at the same time provided that the aggregate asset value of the founders (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) which shares (or limited liability company interests) and/or assets (other than cash) are contributed to the charter capital of the newly founded business entity exceeds 7 billion rubles, or total annual revenues of the founders (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) which shares (or limited liability company interests) and/or assets are contributed to the charter capital of the newly founded business entity for the preceding calendar year exceed 10 billion rubles; and

entering into joint venture agreements between competitors, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds 7 billion rubles, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 10 billion rubles.

The above requirements for a mandatory pre-approval by the FAS will not apply if the transactions are performed by members of the same group, if the information about such a group of persons was disclosed to the antimonopoly authority and there were no changes within one month prior to the date of the transaction within that group of persons. In such cases, the FAS must be notified of the transactions subsequently in accordance with Russian anti-monopoly legislation. Furthermore, the requirement for a mandatory approval of transactions described in the first bullet point above will not apply if the transactions are performed by members of the same group where a company and individual or an entity, if such an individual or an entity holds (either due to its participation in this company or based on the authorities received from other persons) more than 50% of the total amount of votes in the equity (share) capital of this company.

A transaction entered into in violation of the above requirements may be invalidated by a court decision pursuant to a claim brought by the FAS if the FAS proves to the court that the transaction leads or could lead to the limitation of competition in the relevant Russian market. The FAS may also issue binding orders to companies that have violated the applicable antimonopoly requirements and bring court claims seeking liquidation, split-up or spin-off of business entities if a violation of antimonopoly laws was committed by such business entities. In addition, a company may be subject to the administrative fine of an amount from 150 to 250 thousand rubles for the failure to file a FAS post-transactional notification and from 300 to 500 thousand rubles for the failure to file an application for FAS pre-approval of the transaction.

Under the Competition Law, a company with a dominant position in the relevant market is prohibited from misusing its dominant position. Specifically, such company is prohibited from:

establishing and maintaining monopolistically high or monopolistically low prices of goods;

withdrawing goods from circulation, if the result of such withdrawal is an increase in the price of goods;

imposing contractual terms upon a counterparty which are unprofitable for the counterparty or not related to with the subject matter of agreement (i.e., terms that are economically or technologically unjustified);

reducing or terminating, without economical or technological justification, production of goods if there is a demand for the goods or orders for their delivery have been placed and it is possible to produce them profitably;

refusing or evading, without economical or technological justification, to enter into a contract with customers in cases when the production or delivery of the relevant goods is possible;

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establishing without economical, technological or other justification different prices for the same goods;

establishing unjustifiably high or unjustifiably low price of a financial service by a financial organization;

creating discriminatory conditions;

creating barriers to entry into the market for the relevant goods or forcing other companies to leave the market;

violating pricing procedures established by law; and

manipulating prices in the wholesale and/or retail electricity (capacity) markets.

In 2016, as a result of amendments to the Competition Law, the register of entities with a market share exceeding 35% in the relevant market was abolished. Inclusion of a company in the register implied that it might be subject to additional FAS oversight, but at the same time provided the company with information on the occupied market share. The abolition of the register creates additional antimonopoly risks to the company.

In order to prevent the creation of discriminatory conditions, the Government of the Russian Federation can establish rules for non-discriminatory access to goods that are produced and/or sold by a business entity holding a dominant position and not included into the register of natural monopolies whose share exceeds 70% in the relevant market. Such rules may be established in case a decision of the antimonopoly authority on the fact of abuse of a dominant position by such business entity entered into force.

In the event of breach of any terms of business conduct required by the FAS, the FAS may initiate proceedings to investigate a breach of antimonopoly laws. If a breach of the antimonopoly laws is identified, the FAS may initiate administrative proceedings which may result in the imposition of a fine calculated on the basis of the annual revenues received by the company in the market where such breach was committed. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sales of all goods, works and services in the market where such violation was committed, but not more than 2% of gross proceeds of sale of all goods, works and services for the year preceding the year of the violation. Russian legislation also provides for criminal liability of company managers for violations of certain provisions of antimonopoly legislation. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization.

The FAS has determined certain of our companies to have a dominant position in certain markets and these companies are subject to directive issued by the FAS which impose certain restrictions on their commercial activities. See Risk Factors Risks Relating to Our Business and Industry Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

The Strategic Industries Law

The Strategic Industries Law, dated April 29, 2008, as amended, regulates foreign investments in companies with strategic importance for the national defense and security of the Russian Federation (**Strategic Companies**). The Strategic Industries Law provides an exhaustive list of strategic activities, engagement in which makes a company subject to restrictions. Among others, the list of such activities includes exploration and/or production of natural resources on subsoil plots of federal importance. Subsoil plots of federal importance include plots with deposits of uranium, diamonds, high-purity quartz ore, nickel, cobalt, niobium, lithium, beryllium, tantalum, yttrium-group rare-earth metals and platinoid metals. They also include deposits of oil, gas,

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vein gold and copper which are above certain size limits specified in the Subsoil Law, as well as subsoil plots of the internal sea, territorial sea and continental shelf; and subsoil plots, the use of which requires the use of land plots included in the category of national defense and security land. The Strategic Subsoil List was first officially published in *Rossiyskaya Gazeta* on March 5, 2009. Services rendered by business entities included into the register of natural monopolies pursuant to the Federal Law On Natural Monopolies, dated August 17, 1995, as amended, with certain exceptions, are also considered to constitute strategic activity. Furthermore, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in production of weapons and military equipment is also deemed to be a strategic activity. The production and distribution of industrial explosives is also deemed to be activity of strategic importance for national defense and homeland security.

Investments resulting in a foreign investor or a group of entities obtaining control over a Strategic Company, or acquiring fixed assets of a Strategic Company representing 25% or more of its balance sheet value, require prior approval from state authorities. The procedure for issuing such consent will involve a special governmental commission on the control of foreign investments (the **Governmental Commission**), which was established by a government resolution dated July 6, 2008 as the body responsible for granting such consents, and the FAS, which is authorized to process applications for consent from foreign investors and to issue such consents based on the decisions of the Governmental Commission. **Control** for these purposes means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders (or limited liability company interest-holders) meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company or otherwise. Thus, generally, control will be deemed to exist if any foreign investor or a group of entities acquires more than 50% of the shares (or limited liability interests) of a Strategic Company, or if by virtue of a contract or ownership of securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company. However, there are special provisions for Strategic Companies involved in the exploration or extraction of natural resources on plots of federal importance (**Subsoil Strategic Companies**): a foreign investor or group of entities is considered to have control over a Subsoil Strategic Company when such foreign investor or group of entities holds directly or indirectly 25% or more of the voting shares of the Subsoil Strategic Company or holds the right to appoint its sole executive officer and/or 25% or more of its management board or has the unconditional right to elect 25% or more of its board of directors.

Furthermore, in case a foreign investor or its group of entities which is a holder of securities of a Strategic Company, Subsoil Strategic Company or other entity which exercises control over these companies becomes a direct or indirect holder of voting shares in amount which is considered to give them direct or indirect control over these companies in accordance with the Strategic Industries Law due to a change in the allocation of votes resulting from the procedures provided by Russian law (e.g. as a result of a buy-back by the relevant company of its shares, conversion of preferred shares into common shares or holders of preferred shares becoming entitled to vote at a general shareholders meeting in cases provided by Russian law), such shareholders will have to apply for state approval of their control within three months of receiving such control. If the Governmental Commission refuses to grant the approval the shareholders shall sell the relevant part of their respective shares or participatory interest, and if they do not comply with this requirement, a Russian court can deprive such foreign investor or its group of entities of the voting rights in such Strategic Company upon a claim of the competent authority. In such cases, the shares of the foreign investor are not counted for the purposes of establishing a quorum and reaching the required voting threshold at the general shareholders meeting of the Strategic Company.

Any transfers of a stake, or certain rights, in a Strategic Company or in a Subsoil Strategic Company to foreign investors that are (i) companies controlled by the Russian Federation, the constituent entity of the Russian Federation or (ii) companies controlled by Russian nationals, provided that such Russian nationals are Russian tax residents and

do not have other nationality, will not require prior approval from the state authorities.

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If a foreign investor or its group of entities obtains control over a Strategic Company in violation of the Strategic Industries Law, the relevant transaction is void, and in certain cases a Russian court can deprive such foreign investor or group of entities of the voting rights in such Strategic Company upon a claim by the competent authority. In addition, resolutions of the general shareholders' meetings or other management bodies of a Strategic Company adopted after a foreign investor or group of entities obtained control over the Strategic Company in violation of the Strategic Industries Law, as well as transactions entered into by the Strategic Company after obtaining such control, may be held invalid by a court upon a claim by the competent authority. See Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments.

Employment and Labor Regulations in Russia

Labor matters in Russia are governed primarily by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by federal laws, such as the Law On Employment in the Russian Federation, dated April 19, 1991, as amended, and the Law On Compulsory Social Insurance Against Industrial Accidents and Occupational Diseases, dated July 24, 1998, as amended; legal acts of executive authorities; and local government acts related to labor issues.

Employment contracts

As a general rule, employment contracts for an indefinite term are entered into with all employees. Russian labor legislation generally disfavors fixed-term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labor relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labor Code or other federal law. In some cases it is also possible to enter into an employment contract for the employee to perform specified tasks. All terms and conditions of employment contracts are regulated by the Labor Code.

Under Russian law, employment may be terminated by mutual agreement between the employer and the employee at the end of the term of a fixed-term employment contract or on the grounds set out in the Labor Code as described below. An employee has the right to terminate his or her employment contract with a minimum of two weeks' notice (or one month's notice for a company's chief executive officer), unless the employment contract is terminated before the notice period ends by mutual agreement between employer and employee.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labor Code, including, inter alia:

liquidation of the enterprise or downsizing of staff;

failure of the employee to comply with the position's requirements due to incompetence, as confirmed by the results of an attestation;

repeated failure of the employee to fulfill his or her work duties without valid reason, provided that the employee has been disciplined previously;

entering the workplace under the influence of alcohol, narcotics or other intoxicating substances;

a single gross breach by an employee of his or her work duties, including truancy;

disclosure of state secrets or other confidential information, which an employee has come to know during fulfillment of his professional duties;

embezzlement, willful damage or destruction of assets, and misappropriation as confirmed by a court decision or a decision by another competent governmental authority;

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failure to comply with safety requirements in the workplace if such failure to comply caused injuries, casualties or catastrophe; and

provision by the employee of false documents upon entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation and salary payments for a certain period of time, depending on the circumstances.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise and other events specified in the Labor Code, an employer cannot dismiss minors, pregnant women, mothers with a child under the age of three, single mothers with a child under the age of 14 or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate.

For employees working in hazardous or harmful conditions, the regular working week is decreased by four hours in accordance with government regulations. Some of our production employees qualify for this reduced working week.

Annual paid vacation leave under the law is 28 calendar days. Our employees who work in mines and pits or work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 42 business days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, employees who work in underground and open pit mines or do other work in potentially harmful conditions have the right to retire at an earlier age. Early retirement ages are established by the applicable legislation.

Salary

The minimum monthly salary in Russia, as established by federal law, is 6,204 rubles. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of employment.

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Trade unions

Although Russian labor regulations have decreased the authority of trade unions compared with the past, they retain influence over employees and, as such, may affect the operations of large industrial companies in Russia, such as Mechel. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of our employees and the stability of our business.

The activities of trade unions are generally governed by the Federal Law On Trade Unions, Their Rights and Guarantees of Their Activity, dated January 12, 1996, as amended (the **Trade Union Law**). Other applicable legal acts include the Labor Code, which provides for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;

monitor compliance with labor laws, collective contracts and other agreements;

access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;

represent their members and other employees in individual and collective labor disputes with management;

organize and participate in strikes; and

monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs. Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;

protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union

association;

retention of job positions for those employees who stop working due to their election to the management of trade unions;

protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term, except where a company is liquidated or the employer is otherwise entitled to dismiss the employee; and

provision of necessary equipment, premises and vehicles by the employer for use by the trade union free of charge, if provided for by a collective contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labor inspectors and prosecutors to ensure that

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an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration. Although the Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific consequences for such violations are set out in Russian legislation.

Regulation of Russian Electricity Market

Industry background

The Russian utilities sector landscape has undergone dramatic changes within the past several years, since the introduction of electricity industry reform under Government Resolution On Restructuring of Electricity Industry of the Russian Federation No. 526 dated July 11, 2001. The monopoly RAO Unified Energy System of Russia OAO (the **RAO UES**) was liquidated and separated in to separate businesses: electricity and heat generation, transmission (high voltage trunk grid), distribution (medium- and low-voltage infrastructure) and supply (sale of electricity to customers).

The electricity generation sector is now principally comprised of six thermal wholesale generating companies (called **OGKs** based on the Russian acronym for Wholesale Generating Company), one hydro wholesale generating company (named RusHydro), 14 territorial generating companies (**TGKs**), RAO Eastern Energy Systems OAO, Inter RAO JSC, various nuclear generation complexes (owned and/or operated by the Rosenergoatom Concern OJSC), as well as a number of independent regional diversified electricity producers and suppliers (Irkutskenergo OAO, Bashkirenergo OAO, Tatenergo OAO, Novosibirskenergo OAO).

Pursuant to the Federal Law On Specific Features of the Functioning of the Electricity Industry during the Transitional Period and on Introduction of Amendments into Certain Laws of the Russian Federation and Abolishing Certain Laws of the Russian Federation in connection with the Adoption of the Federal Law On the Electricity Industry No. 36-FZ dated March 26, 2003, as amended (the **Transitional Period Law**), companies and individuals, as well as affiliated entities operating within one wholesale market pricing zone, are prohibited from combining activities relating to electricity distribution and/or dispatching with electricity generation and/or sale, through simultaneously owning, or using on any other legal basis, assets which are directly used for electricity distribution and/or dispatching and assets which are directly used for electricity generation and/or sale.

Amendments to the Transitional Period Law adopted in December 2011 introduced an enforcement mechanism with respect to affiliated companies which do not comply with the law. Pursuant to the amendments to the Transitional Period Law, if these requirements are not met, the FAS is entitled to file an application seeking a court order for forced reorganization to separate the assets in case they are combined within one company, or, in case of they are combined among affiliated companies, for a forced sale at a public auction first, of assets owned and directly used in electricity generation and/or sale and second, if the sale of electricity generation and/or sale assets is not possible, of assets owned and directly used in electricity distribution.

Sales of electricity

The Russian electricity market consists of wholesale and retail electricity and capacity markets. The wholesale electricity and capacity market encompasses European territory of the Russian Federation, the Urals and Siberia and is

divided into two pricing zones. The first pricing zone includes the European territory of the Russian Federation and the Urals and the second pricing zone includes Siberia. This market provides a

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framework for large-scale, often interregional, energy trades. The retail electricity market operates within all Russian regional territories and provides a framework for mid-scale and end-consumer energy trades. This market is regulated by the respective Regional Energy Committees (**RECs**).

Wholesale electricity market

The wholesale market is a system of contractual relationships between all of its participants linked together by the process of production, transmission, distribution, purchase and sale and consumption of electricity. This unified energy system encompasses six regional unified energy systems, which are the following: North-West, Central, Urals, Mid-Volga, South and Siberia.

The wholesale market participants mainly include:

producers of electricity and capacity: generating companies (OGKs, TGKs and various other generators);

electricity supply companies (energy traders) which have purchased electricity and capacity for further resale on wholesale and retail markets;

purchasers of electricity and capacity: major power consumers and generating companies which at certain points in time may elect to purchase electricity to fulfill their supply obligations instead of generating their own; and

grid companies (to cover electricity losses sustained in transmission and distribution of electricity).

The infrastructure of the wholesale market is operated by the Non-profit Partnership Market Council and the Trade System Administrator OAO which organize the trading; a system operator established by the former RAO UES in the form of an open joint-stock company (SO UES JSC); the Russian Grids JSC, which owns and operates the federal and regional transmission networks; and the Financial Settlement Center ZAO, which is a clearance and settlement organization for the wholesale electricity and capacity market.

Currently electricity is traded on the basis of the following trading mechanisms:

Regulated bilateral contracts

Regulated contracts are effectively take-or-pay obligations at regulated prices defined by the FAS for electricity and capacity volumes. The volumes of electricity to be traded by the generators under regulated contracts are set up by the FAS annually based on percentages of the volumes of electricity generated in the previous year. The volumes of electricity traded under regulated contracts have gradually declined for the wholesale market when it became fully liberalized in 2011. Starting from January 1, 2011, electricity is traded at non-regulated prices, except for electricity intended for supply to households.

A generator may provide the volumes of electricity it must sell under regulated contracts either through own generation or through the purchase of electricity on the spot market at market prices. Similarly, its customers receive electricity at regulated prices in the volumes agreed under the regulated contracts, regardless of their actual needs, and

can freely trade the imbalance on the spot market at market prices (either by purchasing additional volumes, if needed, or selling the excess electricity volumes).

Non-regulated bilateral contracts

Electricity supply volumes which are not agreed upon under regulated contracts, as well as all new generation capacity commissioned after January 1, 2007, can be traded by participants of the wholesale market under non-regulated contracts, on the one-day-ahead spot market or on the balancing market. All terms of electricity supply under non-regulated contracts are subject to free negotiation between sellers and purchasers.

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Retail electricity market

The retail market participants include consumers, power supply companies, guaranteeing suppliers, power grid companies and electricity producers which do not supply electricity to the wholesale market.

The retail electricity market operates on the following main principles: (1) end consumers are free to choose between sales companies; (2) end consumers purchase at free prices set on the market, except for contracts with guaranteeing suppliers; and (3) guaranteeing suppliers cannot refuse to enter into a contract with an end consumer.

Guaranteeing suppliers sell electricity under prices that take account of: (1) the prices on the wholesale electricity market; (2) the sales premium of the particular guaranteeing supplier set by respective regional authorities; and (3) the prices for electricity transmission and distribution through electricity networks.

Heat market

Heat markets are regional retail markets and heat prices are regulated and set within the general guidelines provided by the FAS and by regional authorities. Minimum and maximum prices for heat energy traded on the retail markets are set by the FAS separately for each administrative region of Russia for a period of at least one year. Regional authorities establish the prices for relevant territories within the range set by the FAS and subject to the types and prices of fuel used to produce the heat and the volumes of heat purchased on the relevant territory.

Our Southern Kuzbass Power Plant delivers heat energy (in the form of hot water) at regulated prices to residential and commercial customers in the cities of Kaltan, Osinniki and Mezhdurechensk. Mechel Energo delivers heat energy (in the form of hot water and steam) at regulated prices to residential and commercial customers in the cities of Vidnoye, Chelyabinsk, Chebarkul, Beloretsk and Izhevsk.

E.U. REACH

On June 1, 2007, the European Union enacted regulations on registration, evaluation, authorization and restrictions of use of chemicals, known as REACH. The purpose of REACH is to ensure a high level of protection of human health and the environment, including the promotion of alternative methods of assessment of hazards of chemical substances.

REACH requires foreign manufacturers importing their chemical substances into the European Union, as well as E.U. manufacturers producing such substances in quantities of one tonne or more per year, to register these substances with the ECHA and provide the information about the registered substances usage and utilization to the competent authorities of the E.U. Member States and downstream users upon request. To comply with REACH requirements, we have created dedicated internal working groups, procured external consultants' advice and budgeted for REACH procedures expenses. Prior to December 1, 2008, we pre-registered with the ECHA substantially all of the substances that we intended to export to or produce in the European Union. As a next step, we successfully registered with the ECHA the substances that we export to or produce in the European Union in an amount over 1,000 tonnes per year, and which are subject to REACH registration, namely: ferroalloys, coke-chemicals and pig iron exported to the European Union. This registration was completed prior to December 1, 2010 in compliance with the REACH implementation schedule.

Item 4A. Unresolved Staff Comments

None.

Table of Contents**Item 5. Operating and Financial Review and Prospects**

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other information in this document. This Item 5 contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including the risks described in Item 3. Key Information Risk Factors and under the caption Cautionary Note Regarding Forward-Looking Statements.

In this Item 5, the term **domestic** describes sales by a subsidiary within the country where its operations are located. The term **export** describes cross-border sales by a subsidiary regardless of its location. See note 28 to the consolidated financial statements.

History of Incorporation

Mechel PAO was incorporated on March 19, 2003, as a joint-stock company holding shares and interests in the charter capitals of various mining and steel companies owned by Igor Zyuzin, Vladimir Iorich and companies controlled by them. These individuals acted in concert from 1995 until December 2006 pursuant to an agreement which required them to vote in the same way. During the period from March through December 2006, Mr. Iorich disposed of his entire interest in Mechel PAO to Mr. Zyuzin, and the agreement terminated on December 21, 2006.

Business Structure**Segments**

We have organized our businesses into three segments:

the mining segment, comprising the production and sale of coal (metallurgical and steam), coke and chemical products, iron ore and limestone, which supplies raw materials to our steel and power segments and also sells substantial amounts of raw materials to third parties, and includes logistical assets, such as our seaports on the Sea of Japan and on the Sea of Azov and our railway transportation assets;

the steel segment, comprising the production and sale of semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat products, high value-added metal products, including wire products, forgings and stampings, as well as ferrosilicon, and our river port on the Kama River, a tributary of the Volga River; and

the power segment, comprising power generating facilities, which supply electricity and heat energy to our mining and steel segments and also sells a portion of electricity and heat energy to third parties.

The table below sets forth by segments our key mining, steel and power subsidiaries, presented in chronological order by date of acquisition.

Name	Product/Business
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	Location of Assets		Date Control Acquired	Voting Interest⁽¹⁾%
<i>Mining Segment</i>				
Southern Kuzbass Coal Company	Russia	Coking coal, steam coal, anthracite and PCI	January 1999	96.6%
Korshunov Mining Plant	Russia	Iron ore concentrate	October 2003	90.0%
Port Posiet	Russia	Seaport: coal warehousing and transshipment	February 2004	97.5%
Mechel Coke	Russia	Coke and chemical products	June 2006	100.0%
Moscow Coke and Gas Plant	Russia	Coke and chemical products	October 2006	99.5%

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Name	Location of Assets	Product/Business	Date Control Acquired	Voting Interest⁽¹⁾%
Yakutugol	Russia	Coking coal, steam coal	October 2007	100.0%
Port Temryuk	Russia	Seaport: coal and metal transshipment	March 2008	100.0%
Elgaugol	Russia	Coking coal, steam coal	August 2013	99.9%
<i>Steel Segment</i>				
Chelyabinsk Metallurgical Plant	Russia	Semi-finished steel products, carbon and stainless long and flat steel products	December 2001	94.2%
Vyartsilya Metal Products Plant	Russia	Wire products	May 2002	93.3%
Beloretsk Metallurgical Plant	Russia	Long steel products, wire products	June 2002	91.5%
Urals Stampings Plant	Russia	Stampings and forgings	April 2003	93.8%
Mechel Nemunas	Lithuania	Wire products	October 2003	100.0%
Izhstal	Russia	Carbon and special steel long products and wire products	May 2004	90.0%
Port Kambarka	Russia	River port	April 2005	90.4%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	August 2007	100.0%
<i>Power Segment</i>				
Mechel Energo	Russia	Electricity generation and sale	February 2004	100.0%
Southern Kuzbass Power Plant	Russia	Electricity generation	April 2007	98.3%
Kuzbass Power Sales Company	Russia	Electricity distribution	June 2007	72.1%

(1) The percentages provided in this table are as of December 31, 2015. Some of our Russian subsidiaries have preferred shares outstanding that have voting rights commensurate with common shares if dividends on those shares have not been paid. We have calculated voting interests by including these preferred shares for subsidiaries where dividends have not been paid.

Intersegment sales

We are an integrated group with operations organized into mining, steel and power segments. Our group companies supply materials to other companies in the same reporting segment or different reporting segments. For example, for the year ended December 31, 2015:

The mining segment supplied approximately 36% of the steel segment's iron ore concentrate requirements, 100% of the steel segment's coke requirements and 89% of the power segment's coal requirements;

The steel segment supplies wires, ropes, wire products and other metal products to the mining segment for use in its day-to-day operations; and

The power segment supplied approximately 29% of our group's overall electricity requirements.

The prices at which we record these transfers are based on market prices, and these transactions are eliminated as intercompany transactions for the purposes of our consolidated financial statements. For the period-on-period discussion of the results of operations by segments, such transfers are included in segment revenues and cost of goods sold.

Recent acquisitions and disposals

Set out below is our key disposal during 2014-2015. There were no significant acquisitions during 2014-2015. For more detail see notes 6 and 17 to the consolidated financial statements. The financial and sales information for the periods presented herein may not be directly comparable from period to period due to this disposal.

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Bluestone. In February 2015, we disposed of 100% of shares in Mechel Bluestone Inc., the holding company of our coal assets in the United States, to a company owned by the Justice family. The total consideration consisted of: (1) an immediate cash payment of \$5 million (RUB 330.3 million as of February 12, 2015); (2) future royalty payments on coal mined and sold in the amount of \$3.00 (RUB 198.2 as of February 12, 2015) per short ton, capped at \$150 million (RUB 9,908.8 million as of February 12, 2015); (3) a portion of a sale price in case of any future sale of Bluestone and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closes within five or from five to ten years, respectively, of the sale to the Justice family. The results of operations of Bluestone companies are included in the consolidated financial statements as discontinued operations. See note 17 to the consolidated financial statements.

Factors Affecting Our Results of Operations and Financial Condition***Change in reporting currency***

Beginning with the period commencing on January 1, 2015, the presentation currency of our consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of our consolidated financial statements prepared under U.S. GAAP. The reason of adopting the Russian ruble as the presentation currency in the consolidated statements under IFRS is to allow a greater transparency of our financial and operating performance.

Cyclical nature of business and impact of macroeconomic factors

Our mining business sells significant amounts of coal to third parties and our revenues depend significantly on these sales. Cyclical and other changes in the world market prices for these products affect the results of our mining operations. The changes in these prices result from factors which are beyond our control, such as market supply and demand. The global coal and iron ore supply and demand balance is strongly influenced by interdependent global economic and industrial demand cycles, as well as supply chain-related constraints such as shipping capacity, availability of rolling stock, transportation bottlenecks, production disruptions and natural disasters. Prices for the products of our mining business have varied significantly in the past and could vary significantly in the future. See

Price trends for products below. See also Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects.

The steel industry is highly cyclical in nature because the industries in which steel customers operate are cyclical and sensitive to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which we sell our products, as well as in the global economy. The prices of our steel products are influenced by many factors, including demand, worldwide production capacity, capacity utilization rates, raw materials costs, exchange rates, trade barriers and improvements in steel-making processes. Steel prices also typically follow trends in raw materials prices and increases in market prices for steel may lag behind increases in production costs, including raw materials.

Demand for steel, particularly long steel products in which we believe we are one of the most competitive producers in the Russian market, is closely tied to the construction industry in the markets in which we sell our products. The construction business in Russia, the principal market for our products, was severely impacted by the global financial crisis and the sharp economic slowdown in Russia. As a result of the critical role of steel in infrastructural and overall economic development, the steel industry tends to track macroeconomic factors such as GDP and industrial output.

Global real GDP grew by 2.6% in 2014 and 2.4% in 2015, according to the World Bank. According to Rosstat, Russia recorded GDP growth of 0.6% in 2014 and GDP decline of 3.7% in 2015. In 2014, world markets continued their slowdown amid slowing economic growth in China, the European debt crisis and geopolitical tensions. In 2015, the global economy was under pressure due to slowing growth in China, geopolitical tensions and high levels of over-production of hydrocarbon raw materials and as a result of low oil prices and it is

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expected that in 2016 these trends will continue to have an adverse impact on world markets for our products. Prices for our products fluctuated depending on the level of demand in key consuming industries and supply and demand balance in our key markets. See [Price trends for products](#).

Trade and competition

Mining products and many types of steel products are considered commodities and treated as fungible in the world markets. As such, we compete with steel producers and mining companies with operations in different countries. The main competitive advantages that steel producers can secure are based on quality and production costs. Generally, steel producers in economically developed regions compete primarily based on quality of steel, while we and other steel producers in developing countries compete in the international market based primarily on price. With respect to our mining products, such as coal and iron ore, quality, production costs and transportation capabilities are key areas where companies seek a competitive advantage.

We benefit from import tariffs that Russia has in place for certain steel products. See [Risk Factors](#) [Risks Relating to Our Business and Industry](#) We benefit from Russia's tariffs and duties on imported steel, many of which have been reduced upon Russia's WTO membership and may be eliminated in the future.

Consolidation trends in the steel and mining industries

The global financial crisis sharply slowed the pace of consolidation in the steel industry. Despite demand growth in 2014 and slight decrease in 2015, steel-making capacity still exceeds steel demand. There is now significant over-capacity in the global steel sector which is putting pressure on operators' profitability. Future potential consolidation in the steel industry should enable steel producers to maintain more consistent performance through cycles in the steel industry by achieving greater efficiency and economies of scale.

The mining industry has been severely impacted by the decline in coal prices since the end of 2011. Prices have fallen by nearly three times in 2011-2015 while production decline has lagged. Profitability of coal producers has declined. Currently, major mining companies are scaling back acquisitions and looking to divest non-core and underperforming assets, some of which were acquired just several years ago. Diversified mining companies have corrected their strategy to focus on profitable operations and reduce their exposure to coal.

We, along with other Russian steel producers, tend to focus on vertical integration which ensures access to a stable supply of raw materials, particularly coking coal and iron ore. Our vertical integration helps us to better manage the effects of raw materials supply constraints and also provides us with an opportunity to capture higher margins in sales of our mining segment products to third parties.

Price trends for products***Coking coal and steam coal***

Throughout 2014, the price for metallurgical coal declined driven by lower demand from Chinese consumers, as well as an increase in low-cost supply from the Australian coking coal producers. As a result, contract prices fell from \$143 per tonne (FOB Australia) in the first quarter of 2014 to \$119 per tonne (FOB Australia) in the fourth quarter of 2014, according to CRU. The average contract price in 2014 was \$125 per tonne, 21% below the average price in 2013. The average spot price in 2014 was \$114 per tonne (FOB Australia), 23% below the average price in 2013, according to CRU. During 2015, global metallurgical coal prices were under pressure as demand continued to decline and oversupply remained. According to CRU, quarterly contract price dropped from \$117 per tonne (FOB Australia) in

the first quarter of 2015 to \$89 per tonne (FOB Australia) in the fourth quarter of 2015. Spot prices declined from \$106 per tonne (FOB Australia) in the first quarter of 2015 to \$78 per tonne (FOB Australia) in the fourth quarter of 2015, according to CRU. The average contract price in 2015 was \$102 per tonne, 18% below the average price in 2014. The average spot price in 2015 was \$90 per tonne (FOB Australia), 21% below the average price in 2014. In this low-price environment, many producers were operating at a loss.

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At the beginning of 2014, the spot price for steam coal was \$83 per tonne (CIF Amsterdam/Rotterdam/Antwerp); by the end of the year it dropped to \$70 per tonne, according to Platts. The average price in 2014 was \$75 per tonne (CIF Amsterdam/Rotterdam/Antwerp), 8% lower than the average price in 2013, according to Platts. Among the factors which had led to lower prices in the world market for steam coal were the decline in demand from the Chinese and European economies, as well as the growth in supply from Australian producers. The reduction of prices in the steam coal market was also due to a general decline in energy prices in 2014. In 2015, steam coal market was still in oversupply, despite producers' efforts to cut production. Chinese power generation and consumption growth has slowed significantly in 2015. According to Platts, in 2015 the spot price for steam coal was \$58 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in January; by the end of the year it declined to \$48 per tonne. The average price in 2015 was \$56 per tonne (CIF Amsterdam/Rotterdam/Antwerp), 25% lower than the average price in 2014, according to Platts.

Iron ore

During 2014, the iron ore spot price decreased from a high of \$128 per dry metric tonne (62% Fe, CFR China) in January to a low of \$69 per dry metric tonne in December, according to Platts. The average spot price in 2014 was \$97 per dry metric tonne which was 28% lower than the average price in 2013, according to Platts. The price decrease was due to sharp increase in low-cost supply from the Australian and Brazilian producers. In 2015, this trend continued: a lot of new iron ore capacity came on stream which together with a reduction of steel production in China has led to lower prices. Iron ore spot price declined from \$68 per dry metric tonne (62% Fe, CFR China) in January to \$40 per dry metric tonne in December, according to Platts. The average spot price in 2015 was \$56 per dry metric tonne which was 42% lower than the average price in 2014, according to Platts.

Coke

In 2014, world market prices for coke were under pressure due to negative trends in the global steel and raw materials market, which resulted in a decrease in prices from \$249 per tonne (62% CSR, FOB North China basis) at the beginning of the year to \$184 per tonne (62% CSR, FOB North China basis) at the end of the year, according to Platts. Domestic coke prices managed to stay at the level of 2013, namely 6,983 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. By the end of the year, however, domestic coke prices fluctuated around 7,600-8,800 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. The increase in domestic coke prices was due to an increase in demand from Ukrainian consumers and to devaluation of the ruble. In 2015, coke production continued to overshoot demand, Chinese export volume has increased, exacerbating oversupply and displacing market share of other coke producing countries in international markets, thus pressuring prices further. As a result coke prices declined from \$179 per tonne (62% CSR, FOB North China basis) in January to \$113 per tonne (62% CSR, FOB North China basis) in December, according to Platts. Average domestic coke price in 2015 was 10,892 rubles per tonne (including VAT, FCA basis), 56% higher than the average price in 2014, according to Metal-Courier. Price growth in the domestic coke market was due to depreciation of Russian ruble, higher coking coal prices and strong demand from Ukraine.

Steel

In 2014, the Russian domestic price for rebar declined to \$528 (-12% year-on-year) per tonne as a result of increased competition and the export price for square billets declined to \$481 (-6% year-on-year) per tonne, according to Metal-Courier. In 2015, the prices have reduced significantly, thus the Russian domestic price for rebar declined to \$345 (-35% year-on-year) per tonne and the export price for square billets declined to \$325 (-32% year-on-year) per tonne as a result of decreased oil and scrap prices, low demand and increased competition on the background of China's exports growth, according to Metal-Courier.

Ferrosilicon

In 2014, ferrosilicon prices decreased throughout the year. In January 2014, the average price level for Chinese ferrosilicon was \$1,475 per tonne (75% Si, CIF Japan). By the end of the year, ferrosilicon prices fell to \$1,341 per tonne (75% Si, CIF Japan), according to TEX. In the beginning of 2015, the price of ferrosilicon

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continued to fall. In May 2015, the price decline has stopped at \$1,242 per tonne (75% Si, CIF Japan), according to TEX. After a relatively stable position in June-August, ferrosilicon prices resumed falling. In December 2015, prices dropped to \$1,156 per tonne (75% Si, CIF Japan), according to TEX.

Freight costs

During 2015, ocean freight rates continued to decline, reaching record lows in the fourth quarter of 2015. In 2015, the largest decrease in the dry bulk sector came from the Capesize sector, where the average time charter rate decreased from \$14,842 per day in 2014 to \$8,127 per day in 2015, a decrease of 45%. The average Panamax rate was \$5,560 per day in 2015 compared to \$7,718 per day in 2014. The average rate for Supramax vessels in 2015 was \$6,695 per day compared to \$9,818 per day in 2014. The average rate for Handysize vessels in 2015 was \$5,381 per day compared to \$7,681 per day in 2014.

With the exception of a third quarter spike in freight activity and rates, mostly driven by a surge in Capesize iron ore shipments to China, the Baltic Index had a negative trend, finishing the year at record lows. The decrease in freight prices in 2015 was mainly due to sluggish Asian commodities demand, vessel oversupply and the collapse of bunker fuel prices, which compromise a substantial part of voyage freight rates. Furthermore, lower bunker prices ended much of the practice of slow-steaming, therefore creating even more vessel supply.

Exchange rates

Our products are typically priced in rubles for Russian and the CIS sales and in U.S. dollars or euros for international sales. Our direct costs, including raw materials, labor and transportation costs are largely incurred in rubles and other local currencies, while other costs, such as interest expenses, are incurred in rubles, euros and U.S. dollars. The mix of our revenues and costs is such that a depreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while an appreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues.

Results of Operations

The following table sets forth our consolidated statement of income data for the years ended December 31, 2015 and 2014.

	Year Ended December 31,			
	2015	% of	2014	% of
Revenues	Amount	Revenues	Amount	Revenues
(In millions of Russian rubles, except for percentages)				
Revenue	253,141	100.0%	243,992	100.0%
Cost of goods sold	(151,334)	(59.8%)	(153,057)	(62.7%)
Gross profit	101,807	40.2%	90,935	37.3%
Selling, distribution and operating expenses, net	(77,739)	(30.7%)	(90,048)	(36.9%)
Operating profit	24,068	9.5%	887	0.4%

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Other income and (expense), net	(131,196)	(51.8%)	(131,974)	(54.1%)
Loss before tax from continuing operations	(107,128)	(42.3%)	(131,087)	(53.7%)
Income tax (expense) benefit	(8,322)	(3.3%)	8,822	3.6%
Loss for the year from continuing operations	(115,450)	(45.6%)	(122,265)	(50.1%)
Profit (loss) after tax for the year from discontinued operations, net	822	0.3%	(11,702)	(4.8%)
Loss for the year	(114,628)	(45.3%)	(133,967)	(54.9%)
Less: profit (loss) attributable to non-controlling interests	535	0.2%	(1,263)	(0.5%)
Loss attributable to equity holders of the parent	(115,163)	(45.5%)	(132,704)	(54.4%)

Table of Contents**Year ended December 31, 2015 compared to year ended December 31, 2014***Revenues*

Consolidated revenues increased by RUB 9,149 million, or 3.7%, to RUB 253,141 million in the year ended December 31, 2015 from RUB 243,992 million in the year ended December 31, 2014.

The sales increase was due to an increase in sales prices across our major segments and changes of exchange rates of the U.S. dollar to the Russian ruble.

The following table sets forth our net revenues by segment, including a breakdown by sales to third parties and other segments.

Revenues by Segment	Year Ended December 31,	
	2015	2014
	(In millions of Russian rubles, except for percentages)	
Mining segment		
To third parties	80,632	79,509
To power segment	1,800	1,658
To steel segment	26,291	19,391
Total	108,723	100,558
Steel segment		
To third parties	146,032	138,660
To power segment	5,475	5,354
To mining segment	1,497	2,853
Total	153,004	146,867
Power segment		
To third parties	26,477	25,823
To steel segment	11,131	10,913
To mining segment	3,858	2,818
Total	41,467	39,554
Eliminations	50,052	42,986
Consolidated revenues	253,141	243,992
% from mining segment	31.9%	32.6%
% from steel segment	57.7%	56.8%
% from power segment	10.5%	10.6%
Mining segment		

Our total mining segment sales increased by RUB 8,165 million, or 8.1%, to RUB 108,723 million in the year ended December 31, 2015 from RUB 100,558 million in the year ended December 31, 2014.

Coking coal concentrate sales to third parties decreased by RUB 3,436 million, or 11.2%, to RUB 27,210 million in the year ended December 31, 2015 from RUB 30,645 million in the year ended December 31, 2014, as a result of a decrease in sales volumes of RUB 9,975 million that was partially offset by an increase in sales prices of RUB 6,539 million. The growth of prices denominated in Russian rubles for coking coal was due to depreciation of the ruble while export sales of coking coal decreased from 81.8% in the year ended December 31, 2014 to 73.6% in the year ended December 31, 2015. During 2015, global coal prices were under pressure as demand continued to decline and oversupply remained, therefore coking coal prices continued to decline. The average contract price in 2015 was \$102 per tonne, 18% below the average price in 2014. The average spot price in 2015 was \$90 per tonne (FOB Australia), 21% below the average price in 2014.

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The volume of coking coal concentrate sold to third parties decreased by 2,531 thousand tonnes, or 32.5%, to 5,246 thousand tonnes in the year ended December 31, 2015 from 7,777 thousand tonnes in the year ended December 31, 2014. The decrease in sales volumes of coking coal in 2015 was mainly caused by decreased sales from Southern Kuzbass Coal Company.

The volume of coking coal sold to third parties decreased both at Yakutugol and Southern Kuzbass Coal Company. Yakutugol's coking coal sales volumes decreased by 825 thousand tonnes, or 15.5%, to 4,515 thousand tonnes in the year ended December 31, 2015 from 5,340 thousand tonnes in the year ended December 31, 2014. Southern Kuzbass Coal Company's coking coal sales volumes decreased by 1,693 thousand tonnes, or 70.4%, to 710 thousand tonnes in the year ended December 31, 2015 from 2,403 thousand tonnes in the year ended December 31, 2014 due to suspension of coal extraction at Olzherasskaya-Novaya Underground caused by high concentration of toxic gases.

Coke sales to third parties increased by RUB 1,002 million, or 11.9%, to RUB 9,429 million in the year ended December 31, 2015 from RUB 8,427 million in the year ended December 31, 2014, as a result of an increase in sales prices of RUB 2,853 million that was offset by a decrease in sales volumes of RUB 1,851 million. Average domestic coke price in 2015 was 10,892 rubles per tonne (including VAT, FCA basis), 56% higher than the average price in 2014, according to Metal-Courier. Price growth in the domestic coke market was due to depreciation of the ruble, higher coking coal prices and strong demand from Ukraine.

Coke supplied to the steel segment increased by RUB 6,510 million, or 51.2%, to RUB 19,234 million in the year ended December 31, 2015 from RUB 12,724 million in the year ended December 31, 2014. The increase was due to an increase in sales prices of RUB 6,733 million that was partially offset by a decrease in sales volumes of RUB 223 million. Coke sales volumes from Mechel Coke to Chelyabinsk Metallurgical Plant decreased by 45 thousand tonnes, or 2.3%, from 1,952 thousand tonnes in the year ended December 31, 2014 to 1,907 thousand tonnes in the year ended December 31, 2015.

Chemical products sales to third parties decreased by RUB 94 million, or 3.9%, to RUB 2,327 million in the year ended December 31, 2015 from RUB 2,422 million in the year ended December 31, 2014, mainly as a result of a decrease in sales volumes.

Anthracite and PCI sales to third parties increased by RUB 2,578 million, or 11.5%, to RUB 24,990 million in the year ended December 31, 2015 from RUB 22,412 million in the year ended December 31, 2014, as a result of an increase in sales prices of RUB 6,748 million that was partially offset by a decrease in sales volumes of RUB 4,169 million. The growth of prices denominated in Russian rubles for anthracite and PCI was due to depreciation of the ruble. In 2015, the contract price for metallurgical coal decreased by 28.3% from \$99 per tonne in January 2015 to \$71 per tonne in December 2015.

Steam coal sales to third parties increased by RUB 2,899 million, or 66.8%, to RUB 7,236 million in the year ended December 31, 2015 from RUB 4,337 million in the year ended December 31, 2014, as a result of an increase in sales volumes of RUB 2,119 million and an increase in sales prices of RUB 779 million. The growth of prices denominated in Russian rubles for steam coal was due to depreciation of the ruble. In 2015, steam coal market was still in oversupply, despite producers' efforts to cut production. Chinese power generation and consumption growth has slowed significantly in 2015. The average price in 2015 was \$56 per tonne, 25% lower than the average price in 2014, according to Platts.

Steam coal supplied to the power segment decreased by RUB 279 million, or 36.8%, to RUB 479 million in the year ended December 31, 2015 from RUB 758 million in the year ended December 31, 2014, as a result of a decrease in sales volumes. Sales of steam coal to power segment companies decreased by 356 thousand tonnes, or 37.9%, from

937 thousand tonnes in the year ended December 31, 2014 to 582 thousand tonnes in the year ended December 31, 2015 due to steam coal replacement by middlings.

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Sales of iron ore to third parties decreased by RUB 2,167 million, or 54%, to RUB 1,844 million in the year ended December 31, 2015 from RUB 4,011 million in the year ended December 31, 2014, as a result of a decrease in sales volumes of RUB 2,333 million that was partially offset by an increase in sales prices of RUB 166 million. Price growth for iron ore was due to depreciation of the ruble. In 2015, new iron ore capacity came on stream which together with a reduction of steel production in China has led to lower prices. Iron ore spot price declined from \$68 per dry metric tonne (62% Fe, CFR China) in January to \$40 per dry metric tonne in December, according to Platts. The average spot price in 2015 was \$56 per dry metric tonne which was 42% lower than the average price in 2014, according to Platts.

Supplies of iron ore to the steel segment increased by RUB 250 million, or 4.5%, to RUB 5,843 million in the year ended December 31, 2015 from RUB 5,593 million in the year ended December 31, 2014, as a result of a RUB 1,070 million increase in sales volumes that was partially offset by a RUB 820 million decrease in sales prices. Sales volumes increased due to the group strategy of redirection of iron ore sales volumes from third parties to group iron ore consumers. The share of iron ore consumed at Chelyabinsk Metallurgical Plant and produced by Korshunov Mining Plant increased from 41.2% in the year ended December 31, 2014 to 52.5% in the year ended December 31, 2015.

Excluding intersegment sales, export sales were stable at 74.1% of mining segment sales in the year ended December 31, 2015, compared to 73.9% in the year ended December 31, 2014.

Steel segment

Our steel segment revenues increased by RUB 6,137 million, or 4.1%, to RUB 153,004 million in the year ended December 31, 2015 from RUB 146,867 million in the year ended December 31, 2014, mainly due to increase in sales prices. The decrease in third-party sales volumes was due to the weakened demand from Russian and European construction, engineering and transport sectors and the decline in purchases and resale of products from the former Estar metallurgical plants in 2015. In 2014, Russian rolled steel consumption was at a level of 45.5 million tonnes, in 2015 it declined by 8.7% and amounted to 41.5 million tonnes, according to Metal Expert.

Semi-finished products sales increased by RUB 2,193 million, or 77.4%, to RUB 5,027 million in the year ended December 31, 2015 from RUB 2,834 million in the year ended December 31, 2014, as a result of an increase of RUB 1,045 million in sales prices and an increase of RUB 1,148 million in sales volumes. In 2015, sales prices denominated in Russian rubles increased due to depreciation of the ruble: annual average price for billets (including VAT, FCA basis) was 19,403 rubles per tonne, 18% higher than the average price in 2014. Whereas in 2015 U.S. dollar-denominated prices declined as a result of decreased oil and scrap prices, low demand and increased competition on the background of China's exports growth, according to Metal-Courier. The increase in third-party sales volumes was due to recovery of demand in the domestic market.

Other long products sales increased by RUB 1,836 million, or 7.0%, to RUB 28,152 million in the year ended December 31, 2015 from RUB 26,316 million in the year ended December 31, 2014, as a result of an increase of RUB 5,403 million in sales prices that was partially offset by a decrease of RUB 3,567 million in sales volumes. The increase in sales prices was mainly due to depreciation of the ruble and, consequently, higher prices for steel-making raw materials (iron ore, coke, coking coal, etc.). Sales volumes decreased due to the decrease in sales volumes of products purchased from the former Estar metallurgical plants and low demand in the Russian market (reduction in the volume of constructions).

Other flat products sales increased by RUB 3,782 million, or 33.9%, to RUB 14,926 million in the year ended December 31, 2015 from RUB 11,144 million in the year ended December 31, 2014, as a result of an increase of RUB

2,660 million in sales prices and an increase of RUB 1,122 million in sales volumes. The increase in ruble-denominated sales prices was driven by depreciation of the ruble against the U.S. dollar: annual average price for flat steel products (including VAT, FCA basis) was 35,892 rubles per tonne, 12% higher than in

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2014. Whereas annual average price for hot-rolled coil (Russia exports, FOB Black Sea) in U.S. dollars decreased by 35% to \$345 per tonne in the year ended December 31, 2015 from \$530 per tonne in the year ended December 31, 2014, according to Metal Expert. The sales volume increased due to the growth in market share and strengthening of consumer demand in the Russian market.

Wire sales increased by RUB 593 million, or 4.0%, to RUB 15,561 million in the year ended December 31, 2015 from RUB 14,968 million in the year ended December 31, 2014, as a result of an increase of RUB 1,883 million in sales prices that was partially offset by a decrease of RUB 1,290 million in sales volumes. The increase in sales prices was driven by the increase in the prices of wire rod used as the main input for wire production, as well as by depreciation of the ruble against the U.S. dollar. Sales volumes decreased due to the weakened demand in Russia and Europe.

Rebar sales increased by RUB 442 million, or 1.1%, to RUB 39,980 million in the year ended December 31, 2015 from RUB 39,538 million in the year ended December 31, 2014, as a result of an increase of RUB 2,405 million in sales prices that was offset by a decrease of RUB 1,963 million in sales volumes. In 2015, the Russian domestic price and prices in the CIS region for rebar increased due to the ruble depreciation. Sales volumes decreased due to lower demand in Russian construction sector.

Steel pipes sales decreased by RUB 83 million, or 2.4%, to RUB 3,308 million in the year ended December 31, 2015 from RUB 3,391 million in the year ended December 31, 2014, as a result of a decrease of RUB 781 million in sales volumes that was offset by an increase of RUB 698 million in sales prices. The price increased due to depreciation of the ruble. The sales volume decreased due to reduction of sales volume of products purchased from the former Estar metallurgical plants and lower demand in the Russian market.

Pig iron sales decreased by RUB 1,964 million, or 60.4%, to RUB 1,287 million in the year ended December 31, 2015 from RUB 3,251 million in the year ended December 31, 2014, as a result of an increase of RUB 175 million in sales prices and a decrease of RUB 2,139 million in sales volumes. The decrease in sales volumes was due to the increase in consumption within our steel segment.

Stampings sales decreased by RUB 503 million, or 6.8%, to RUB 6,918 million in the year ended December 31, 2015 from RUB 7,421 million in the year ended December 31, 2014, as a result of an increase of RUB 967 million in sales prices that was offset by a decrease of RUB 1,470 million in sales volumes. The increase in sales prices was driven by the increase in domestic prices during 2015. The decrease in sales volumes was due to lower demand from the key consuming industries (engineering and transport industries).

Ferrosilicon sales increased by RUB 815 million, or 30.0%, to RUB 3,528 million in the year ended December 31, 2015 from RUB 2,713 million in the year ended December 31, 2014, as a result of an increase of RUB 1,172 million in sales prices that was partially offset by a decrease of RUB 357 million in sales volumes. The increase in sales prices was driven by depreciation of the ruble against the U.S. dollar. The decrease in sales volumes was due to the increased competition from the market's participants.

Sales of non-core products and services slightly decreased by RUB 592 million, or 9.1%, to RUB 5,929 million in the year ended December 31, 2015 from RUB 6,521 million in the year ended December 31, 2014.

Excluding intersegment sales, export sales were 17.7% of steel segment sales in the year ended December 31, 2015, compared to 17.8% in the year ended December 31, 2014.

Power segment

Our power segment revenues increased by RUB 1,913 million, or 4.8%, to RUB 41,467 million in the year ended December 31, 2015 from RUB 39,554 million in the year ended December 31, 2014.

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Electricity sales to third parties increased by RUB 896 million, or 3.8%, to RUB 24,524 million in the year ended December 31, 2015 from RUB 23,628 million in the year ended December 31, 2014, as a result of an increase of RUB 616 million in sales prices and an increase of RUB 280 million in sales volumes.

Other revenue, which consists mostly of heat energy, decreased by RUB 243 million, or 11.1%, to RUB 1,952 million in the year ended December 31, 2015 from RUB 2,195 million in the year ended December 31, 2014, due to decrease in sales tariffs and sales volumes.

Intersegment sales increased by RUB 1,259 million, or 9.2%, to RUB 14,990 million in the year ended December 31, 2015 from RUB 13,731 million in the year ended December 31, 2014, mainly as a result of an increase in electricity sales to our steel segment by 16.0%.

Cost of goods sold and gross profit

The consolidated cost of goods sold was 59.8% of consolidated revenues in the year ended December 31, 2015, as compared to 62.7% of consolidated revenues in the year ended December 31, 2014, resulting in an increase in consolidated gross profit to 40.2% in the year ended December 31, 2015 from 37.3% for the year ended December 31, 2014. Cost of goods sold primarily consists of costs relating to raw materials (including products purchased for resale), direct payroll, depreciation and energy. The table below sets forth cost of goods sold and gross profit by segment for the years ended December 31, 2015 and 2014, including as a percentage of segment revenues.

Cost of Goods Sold and Gross Profit by Segment	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Amount	% of Segment Revenues	Amount	% of Segment Revenues
	(In millions of Russian rubles, except for percentages)			
Mining segment				
Cost of goods sold	51,280	47.2%	51,435	51.1%
Gross profit	57,442	52.8%	49,123	48.9%
Steel segment				
Cost of goods sold	119,610	78.2%	115,485	78.6%
Gross profit	33,394	21.8%	31,382	21.4%
Power segment				
Cost of goods sold	30,178	72.8%	29,215	73.9%
Gross profit	11,289	27.2%	10,339	26.1%

Mining segment

Mining segment cost of goods sold decreased by RUB 155 million, or 0.3%, to RUB 51,280 million in the year ended December 31, 2015 from RUB 51,435 million in the year ended December 31, 2014. The gross profit percentage increased to 52.8% in the year ended December 31, 2015 compared to 48.9% in the year ended December 31, 2014, mainly due to the increase in selling prices denominated in rubles caused by the depreciation of the ruble.

Coal production cash costs per tonne (see Cash Costs per Tonne Measure) at Southern Kuzbass Coal Company increased by RUB 263 per tonne, or 22.0%, from RUB 1,197 in the year ended December 31, 2014 to RUB 1,460 in the year ended December 31, 2015, mainly due to the increase of purchasing prices caused by the depreciation of the

ruble.

Production cash costs of coal at Yakutugol decreased by RUB 97 per tonne, or 10.1%, from RUB 957 in the year ended December 31, 2014 to RUB 860 in the year ended December 31, 2015, mainly due to cost cut.

Coke production cash costs increased by 8.8% at Moscow Coke and Gas Plant and by 26.1% at Mechel Coke following the increase in coking coal concentrate purchase prices caused by the depreciation of the ruble.

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Production cash costs of iron ore increased by 10.5% due to the increase of share of fixed costs per tonne, resulting from a 15.4% decline in iron ore extraction in 2015 compared to 2014.

Steel segment

Steel segment cost of goods sold increased by RUB 4,125 million, or 3.6%, to RUB 119,610 million in the year ended December 31, 2015 from RUB 115,485 million in the year ended December 31, 2014. Steel segment cost of goods sold was 78.2% of the segment's revenues in the year ended December 31, 2015, as compared to 78.6% in the year ended December 31, 2014. The slight increase in gross profit from 21.4% to 21.8% is mainly explained by the increase in ruble sales prices caused by the depreciation of the ruble.

Power segment

Power segment cost of goods sold increased by RUB 963 million, or 3.3%, to RUB 30,178 million in the year ended December 31, 2015 from RUB 29,215 million in the year ended December 31, 2014. The power segment gross profit percentage increased to 27.2% in the year ended December 31, 2015 from 26.1% in the year ended December 31, 2014 due to sales price increase.

Cash Costs per Tonne Measure

In this document, we present cash costs per tonne for coal, coke and iron ore production for each significant production facility of our mining segment. Cash costs per tonne is a performance indicator that is not defined according to IFRS or U.S. GAAP. Cash costs per tonne includes various production costs, such as raw materials, auxiliary materials, wages and social taxes of production personnel, electricity, gas and fuel costs, repairs and maintenance of production equipment, costs of mining works, mineral extraction tax and royalty payments, but excludes non-cash items such as depreciation, depletion and write-down of inventories to their net realizable value. We use this indicator to evaluate the performance of individual production subsidiaries and their respective ability to generate cash. Cash costs per tonne is a widely used performance indicator in the mining industry to evaluate the cost-effectiveness of mining operations. We believe that investors use this indicator in addition to the financial information prepared in accordance with IFRS to evaluate the performance of our companies. Consequently, this information must be considered supplementary and should not be regarded as a substitute for the performance indicators prepared in accordance with IFRS.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2015 is presented below:

			In Thousands of Tonnes	Cash Cost, In Thousands of Russian rubles per Tonne	In Millions of Russian rubles
Coal	Southern Kuzbass Coal Company	sales to third parties	5,012	1.5	7,317
Coal	Southern Kuzbass Coal Company	intersegment sales	1,674	1.5	2,444
Coal	Yakutugol	sales to third parties	7,540	0.9	6,483

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Coal	Yakutugol	intersegment sales		0.9	
Coal	Elgaugol	sales to third parties	1,575	0.8	1,280
Coal	Elgaugol	intersegment sales	6	0.8	5
Iron ore	Korshunov Mining Plant	sales to third parties	489	2.0	983
Iron ore	Korshunov Mining Plant	intersegment sales	2,288	2.0	4,598
Coke	Moscow Coke and Gas Plant	sales to third parties ⁽¹⁾	715	7.4	5,268
Coke	Moscow Coke and Gas Plant	intersegment sales	3	7.4	20
Coke	Mechel Coke	sales to third parties ⁽²⁾	270	6.0	1,612
Coke	Mechel Coke	intersegment sales	1,924	6.0	11,499

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	In Thousands of Tonnes	Cash Cost, In Thousands of Russian rubles per Tonne	In Millions of Russian rubles
Depreciation			6,532
Depletion			1,685
Write-down of inventory to their net realizable value			6
Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales			346
Costs of other products and services (coking products, washing services) and costs of other subsidiaries ⁽³⁾			1,200
Total mining segment cost of sales			51,280

- (1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 283, or 4%, at Moscow Coke and Gas Plant in the year ended December 31, 2015.
- (2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 767, or 13%, at Mechel Coke in the year ended December 31, 2015.
- (3) Line Costs of other products and services was increased by the amount of by-products credits of RUB 840 million in the year ended December 31, 2015.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2014 is presented below:

	In Thousands of Tonnes	Cash Cost, In Thousands of Russian rubles per Tonne	In Millions of Russian rubles
Coal Southern Kuzbass Coal Company sales to third parties	8,029	1.2	9,611
Coal Southern Kuzbass Coal Company intersegment sales	1,490	1.2	1,783
Coal Yakutugol sales to third parties	8,338	1.0	7,979
Coal Yakutugol intersegment sales		1.0	
Coal Elgaugol sales to third parties	668	0.8	560
Coal Elgaugol intersegment sales		0.8	
Iron ore Korshunov Mining Plant sales to third parties	1,169	1.8	2,125
Iron ore Korshunov Mining Plant intersegment sales	1,920	1.8	3,492
Coke Moscow Coke and Gas Plant sales to third parties ⁽¹⁾	775	6.8	5,248
Coke Moscow Coke and Gas Plant intersegment sales		6.8	

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Coke	Mechel Coke	sales to third parties ⁽²⁾	487	4.7	2,297
Coke	Mechel Coke	intersegment sales	1,961	4.7	9,249
Depreciation					5,911
Depletion					1,787
Write-down of inventory to their net realizable value					166
Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales					439
Costs of other products and services (coking products, washing services) and costs of other subsidiaries ⁽³⁾					788
Total mining segment cost of sales					51,435

- (1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 417, or 6%, at Moscow Coke and Gas Plant in the year ended December 31, 2014.
- (2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 695, or 15%, at Mechel Coke in the year ended December 31, 2014.

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(3) Line Costs of other products and services was increased by the amount of by-products credits of RUB 834 million in the year ended December 31, 2014.

Selling, distribution and operating expenses

Selling, distribution and operating expenses decreased by RUB 12,309 million, or 13.7%, to RUB 77,739 million in the year ended December 31, 2015 from RUB 90,048 million in the year ended December 31, 2014, as a result of a decrease in impairment of goodwill and other non-current assets in the steel segment, selling and distribution expenses in the mining segment and allowance for doubtful accounts in the mining, steel and power segments in the year ended December 31, 2015. As a percentage of consolidated revenues, selling, distribution and operating expenses decreased to 30.7% in the year ended December 31, 2015 from 36.9% in the year ended December 31, 2014. Our selling, distribution and operating expenses consist primarily of selling and distribution expenses, taxes other than income taxes, loss on write-off of property, plant and equipment, allowance for doubtful accounts, allowance for amounts due from related parties, impairment of goodwill and other non-current assets and general, administrative and other operating expenses. The table below sets forth these costs by segment for the years ended December 31, 2015 and 2014, including as a percentage of segment revenues.

Selling, Distribution and Operating Expenses by Segment	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Amount	% of Segment Revenues	Amount	% of Segment Revenues
(In millions of Russian rubles, except for percentages)				
Mining segment				
Selling and distribution expenses	28,588	26.3%	33,583	33.4%
Loss on write-off of property, plant and equipment	199	0.2%	309	0.3%
Impairment of goodwill and other non-current assets		0.0%	(19)	(0.0%)
Allowance for doubtful accounts	204	0.2%	855	0.9%
Taxes other than income taxes	3,706	3.4%	4,878	4.9%
Allowance for amounts due from related parties	43	0.0%	126	0.1%
Administrative and other operating expenses	8,872	8.2%	8,001	7.9%
Other operating income	(63)	(0.1%)	(329)	(0.3%)
Total	41,548	38.2%	47,404	47.1%
Steel segment				
Selling and distribution expenses	13,736	9.0%	13,394	9.1%
Loss on write-off of property, plant and equipment	492	0.3%	242	0.2%
Impairment of goodwill and other non-current assets	16	0.0%	8,015	5.5%
Allowance for doubtful accounts	948	0.6%	2,290	1.6%
Taxes other than income taxes	2,046	1.3%	1,507	1.0%
Allowance for amounts due from related parties		0.0%		0.0%
Administrative and other operating expenses	7,825	5.1%	7,743	5.3%
Other operating income	(123)	(0.1%)	(459)	(0.3%)
Total	24,937	16.3%	32,729	22.3%

Power segment				
Selling and distribution expenses	8,792	21.2%	8,685	22.0%
Loss on write-off of property, plant and equipment		0.0%	110	0.3%
Impairment of goodwill and other non-current assets	1,444	3.5%		0.0%
Allowance for doubtful accounts	312	0.8%	526	1.3%
Taxes other than income taxes	103	0.2%	86	0.2%
Allowance for amounts due from related parties		0.0%		0.0%
Administrative and other operating expenses	603	1.5%	571	1.4%
Other operating income	(0)	(0.0%)	(63)	(0.2%)
Total	11,254	27.1%	9,915	25.1%

Table of Contents***Mining segment***

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses decreased by RUB 4,994 million, or 14.9%, to RUB 28,558 million in the year ended December 31, 2015 from RUB 33,582 million in the year ended December 31, 2014, mainly due to the decrease in segment sales volumes by 19.9%. As a percentage of mining segment revenues, selling and distribution expenses decreased from 33.4% to 26.3% due to an increase of 35.6% in sales revenue from sales to steel segment and simultaneous decrease of 14.9% in selling and distribution expenses.

Taxes other than income tax decreased by RUB 1,172 million, or 24.0%, to RUB 3,706 million in the year ended December 31, 2015 from RUB 4,878 million in the year ended December 31, 2014. The decrease was due to several accruals for taxes other than income tax made in the financial statements for the year ended December 31, 2014, namely additional tax liabilities for previous years of RUB 548 million at Tomusinsky Open Pit. There are no similar accruals in 2015. Tax penalties imposed by the tax authorities due to delays in tax payments decreased by RUB 515 million from RUB 697 million in the year ended December 31, 2014 to RUB 181 million in the year ended December 31, 2015.

Allowance for doubtful accounts decreased by RUB 651 million to RUB 204 million in the year ended December 31, 2015 from RUB 855 million in the year ended December 31, 2014, due to the decrease in outstanding accounts receivable at the end of 2015. In accordance with our accounting policy, we apply specific rates to overdue accounts receivable depending on the history of cash collections and events and conditions at the reporting date.

Provisions for amounts due from related parties decreased by RUB 83 million to RUB 43 million in the year ended December 31, 2015 from RUB 126 million in the year ended December 31, 2014 due to repayments. See note 14 to the consolidated financial statements.

Loss on write-off of property, plant and equipment decreased by RUB 110 million, or 35.4%, to RUB 199 million in the year ended December 31, 2015 from RUB 309 million in the year ended December 31, 2014, due to the decrease in the number of property, plant and equipment objects that are not planned for further use in production process at Yakutugol and Southern Kuzbass Coal Company.

General, administrative and other expenses consist of payroll and payroll taxes, depreciation, rent and maintenance, legal and consulting expenses, office overheads and other expenses. These expenses increased by RUB 1,135 million, or 14.8%, to RUB 8,807 million in the year ended December 31, 2015 from RUB 7,672 million in the year ended December 31, 2014, mainly as a result of the depreciation of the Russian ruble: salaries and related social taxes increased by RUB 690 million, or 15.0%, to RUB 5,299 million in the year ended December 31, 2015 from RUB 4,609 million in the year ended December 31, 2014; legal and consulting fees and insurance services increased by 11.2% to RUB 278 million in the year ended December 31, 2015 from RUB 250 million in the year ended December 31, 2014; and other administrative and operating expenses increased by RUB 417 million, or 14.6%, to RUB 3,230 million in the year ended December 31, 2015 from RUB 2,813 million in the year ended December 31, 2014.

Steel segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses increased by RUB 343 million, or 2.6%, to RUB 13,736 million in the year ended December 31, 2015 from RUB 13,393 million in the year ended December 31, 2014, mainly due to the increase in railway tariffs by 10.0% that was partially offset by the decrease in sales volume. As a percentage of steel segment revenues, selling and

distribution expenses decreased to 9.0% in the year ended December 31, 2015 from 9.1% in the year ended December 31, 2014.

Taxes other than income tax increased by RUB 539 million, or 35.8%, to RUB 2,044 million in the year ended December 31, 2015 from RUB 1,505 million in the year ended December 31, 2014. As a percentage of

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segment revenues, these taxes increased from 1.0% to 1.3%. Property and land taxes increased by RUB 193 million, or 17.7%, to RUB 1,282 million in the year ended December 31, 2015 from RUB 1,089 million in the year ended December 31, 2014, mainly due to revision of the cadastral valuation of land.

Allowance for doubtful accounts decreased by RUB 1,342 million, or 58.6%, to RUB 948 million in the year ended December 31, 2015 from RUB 2,290 million in the year ended December 31, 2014, mainly due to the fact that main provision in relation to certain of the former Estar metallurgical plants had entered into bankruptcy proceedings was recognized in 2014 and in previous years.

Loss on write-off of property, plant and equipment increased by RUB 250 million, or 103.3%, to RUB 492 million in the year ended December 31, 2015 from RUB 242 million in the year ended December 31, 2014, due to the increase in the number of idled property, plant and equipment written off by our steel production subsidiaries.

Impairment of goodwill and other non-current assets decreased by RUB 7,999 million or 99.8%. In 2014, we recognized impairment of property, plant and equipment and construction in progress in relation to Izhstal of RUB 6,669 million, Donetsk Electrometallurgical Plant of RUB 1,283 million and Mechel Service Romania of RUB 63 million due to the lack of positive prospects for the recovery of the European market. In 2015, we recognized reversal of impairment of other non-current assets in relation to Izhstal of RUB 5,967 million and recognized additional impairment of other non-current assets in relation to Mechel Materials of RUB 5,983 million.

General, administrative and other expenses increased by RUB 418 million, or 5.7%, to RUB 7,702 million in the year ended December 31, 2015 from RUB 7,284 million in the year ended December 31, 2014. A percentage of segment revenues remained at the level of 5.0% in the years ended December 31, 2015 and 2014. Payroll and related social taxes slightly increased by RUB 144 million, or 4.0%, to RUB 3,750 million in the year ended December 31, 2015 from RUB 3,606 million in the year ended December 31, 2014. Social expenses decreased by RUB 43 million, or 16.8%, to RUB 215 million in the year ended December 31, 2015 from RUB 258 million in the year ended December 31, 2014, due to the cost-cutting measures implemented by our management. Rent and maintenance, business travel expenses, bank charges and office expenses increased by RUB 84 million, or 9.6%, to RUB 959 million in the year ended December 31, 2015 from RUB 875 million in the year ended December 31, 2014. Professional expenses, which include auditing, accounting, legal and engineering fees and insurance services decreased by RUB 122 million, or 27.9%, to RUB 315 million in the year ended December 31, 2015 from RUB 437 million in the year ended December 31, 2014, due to the cost-cutting measures implemented by our management and the decreased involvement of external consultants in 2015. Fines and penalties expenses on breach of trading contracts increased by RUB 317 million, or 149.4%, to RUB 529 million in the year ended December 31, 2015 from RUB 212 million in the year ended December 31, 2014. Other administrative and operating expenses increased by RUB 38 million, or 2.0%, to RUB 1,934 million in the year ended December 31, 2015 from RUB 1,896 million in the year ended December 31, 2014.

Power segment

In 2015, selling and distribution expenses consisted almost entirely of electricity transmission costs incurred by our Kuzbass Power Sales Company for the usage of the power grid through which electricity is distributed to end consumers. These expenses increased by RUB 108 million, or 1.2%, to RUB 8,792 million in the year ended December 31, 2015 from RUB 8,685 million in the year ended December 31, 2014.

Taxes other than income tax increased by RUB 16 million, or 18.8%, to RUB 103 million in the year ended December 31, 2015 from RUB 86 million in the year ended December 31, 2014, due to the increase in property tax accrued by Southern Kuzbass Power Plant.

Allowance for doubtful accounts decreased by RUB 214 million to RUB 312 million in the year ended December 31, 2015 from RUB 526 million in the year ended December 31, 2014, mainly due to the decrease in allowance for trade receivables from the former Estar metallurgical plants.

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In 2015, as a result of the goodwill impairment test we recognized the impairment loss of Southern Kuzbass Power Plant in the amount of RUB 1,444 million. No impairment loss was recognized in 2014. See note 19 to the consolidated financial statements.

General, administrative and other expenses increased by RUB 32 million, or 5.6%, to RUB 603 million in the year ended December 31, 2015 from RUB 571 million in the year ended December 31, 2014, due to reversal of provisions for legal claims and reduction in personnel expenses as a result of power plants organizational optimization.

Operating profit

Operating profit increased by RUB 23,181 million, or 2,613%, to RUB 24,068 million in the year ended December 31, 2015 from RUB 887 million in the year ended December 31, 2014. Operating profit as a percentage of consolidated revenues was 9.5% in the year ended December 31, 2015 and 0.4% in the year ended December 31, 2014, mainly due to an increase in consolidated gross profit to 40.2% in the year ended December 31, 2015 from 37.3% in the year ended December 31, 2014 and a decrease in losses from allowance for amounts due from related parties and impairment of goodwill and other non-current assets as explained above.

The table below sets out operating profit (loss) by segment, including as a percentage of segment revenues.

Operating Profit (Loss) by Segment	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Amount (In millions of Russian rubles, except for percentages)	% of Segment Revenues	Amount	% of Segment Revenues
Mining segment	15,895	14.6%	1,718	1.7%
Steel segment	8,456	5.5%	(1,347)	(0.9%)
Power segment	35	0.1%	424	1.1%
Elimination of intersegment unrealized (profit) loss ⁽¹⁾	(318)		91	
Consolidated operating profit	24,068		887	

- (1) Our management evaluates the performance of our segments before the elimination of unrealized profit in inventory balances of segments that was generated by the segments but not recognized as profit in our consolidated financial statements until the sale of such inventories to third parties. Therefore, we present our segments before such elimination, and such elimination is presented separately. The change in intersegment unrealized profit adjustment in the year ended December 31, 2015 as compared to the year ended December 31, 2014 was due to the increase in gross profit of our mining segment in 2015.

Mining segment

Mining segment operating income increased by RUB 14,177 million, or 825.1%, to RUB 15,895 million in the year ended December 31, 2015 from RUB 1,718 million in the year ended December 31, 2014. The operating profit percentage increased to 14.6% in the year ended December 31, 2015 from 1.7% in the year ended December 31, 2014, mainly due to the increase in selling prices denominated in rubles caused by the depreciation of the ruble.

Steel segment

Steel segment operating results changed by RUB 9,803 million, or 727.8%, to RUB 8,456 million income in the year ended December 31, 2015 from RUB 1,347 million loss in the year ended December 31, 2014. The operating profit percentage changed to positive 5.5% in the year ended December 31, 2015 from negative 0.9% in the year ended December 31, 2014, mainly due to the factors that affected operating income in 2014, such as the recognition of losses from the impairment of non-current assets of Izhstal and Donetsk Electrometallurgical Plant and a provision on trade and other balances due from the former Estar metallurgical plants.

Table of Contents**Power segment**

Power segment operating income decreased by RUB 389 million, or 91.8%, to RUB 35 million in the year ended December 31, 2015 from RUB 424 million in the year ended December 31, 2014. The operating profit percentage decreased to 0.1% in the year ended December 31, 2015 from 1.1% in the year ended December 31, 2014, mainly due to the optimization of expenses and the increase in sales tariffs.

Other income and expense, net

Other income and expense, net consists of share of profit of an associate, finance income, finance costs, other income and other expenses and foreign exchange loss. The table below sets forth these costs for the years ended December 31, 2015 and 2014, including as a percentage of revenues.

Other Income and Expense, Net	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Amount	% of Revenues	Amount	% of Revenues
	(In millions of Russian rubles, except for percentages)			
Finance income	183	0.1%	107	0.0%
Finance costs	(60,453)	(23.9)%	(28,110)	(11.5)%
Foreign exchange loss	(71,106)	(28.0)%	(103,176)	(42.3)%
Share of profit of an associate		0.0%	7	0.0%
Other income	526	0.2%	684	0.3%
Other expenses	(347)	(0.1)%	(1,486)	(0.6)%
Total	(131,196)	(51.8)%	(131,974)	(54.1)%

Finance income increased by RUB 76 million, or 71%, to RUB 183 million in the year ended December 31, 2015 from RUB 107 million in the year ended December 31, 2014, mainly due to fines and penalties on overdue accounts receivable and an increase in exchange rates.

Finance costs increased by RUB 32,342 million, or 115.1%, to RUB 60,453 million in the year ended December 31, 2015 from RUB 28,110 million in the year ended December 31, 2014, due to the increase in the weighted average interest rate from 12.0% in the year ended December 31, 2014 to 15.0% in the year ended December 31, 2015 and the increase of fines and penalties on overdue borrowings and interest payable by RUB 19,288 million.

Foreign exchange loss decreased by RUB 32,070 million, or 31.2%, to RUB 71,106 million in the year ended December 31, 2015 from RUB 103,176 million in the year ended December 31, 2014, mainly due to a decline of volatility of the ruble exchange rate in the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Share of profit of an associate decreased by RUB 7 million to RUB nil in the year ended December 31, 2015 from RUB 7 million in the year ended December 31, 2014. Income earned in 2014 related to our share of income from our equity investment of BWS Bewehrungsstahl GmbH (see note 8 to the consolidated financial statements).

Other income decreased by RUB 158 million, or 23.1%, to RUB 526 million in the year ended December 31, 2015 from RUB 684 million in the year ended December 31, 2014 and other expenses decreased by RUB 1,139 million, or 76.6%, to RUB 347 million in the year ended December 31, 2015 from RUB 1,486 million in the year ended December 31, 2014, mainly due to a loss related to the failure of a counterparty to a securities repurchase agreement to return certain securities to our group.

Table of Contents*Income tax expense (benefit)*

Income tax expense changed by RUB 17,144 million, or 194.3%, to RUB 8,322 million expense in the year ended December 31, 2015 from RUB 8,822 million benefit in the year ended December 31, 2014, due to an overall increase in operating income. Our effective tax rate changed to positive 7.8% from negative 6.7%, due to the increase in loss from continuing operations before income tax.

Net income (loss) from discontinued operations

Net income (loss) from discontinued operations changed by RUB 12,524 million, or 107.0%, to RUB 822 million income in the year ended December 31, 2015 from RUB 11,702 million loss in the year ended December 31, 2014, mainly due to the recognition of Bluestone as held for sale and recognition of corresponding impairment loss in 2014.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests changed by RUB 1,798 million, or 142.4%, to a RUB 535 million income in the year ended December 31, 2015 from a RUB 1,263 million loss in the year ended December 31, 2014. The non-controlling interest in the loss of our subsidiaries in the year ended December 31, 2015 was RUB 927 million for Southern Kuzbass Coal Company and RUB 104 million for Izhstal and was partially offset by the non-controlling interest in the income of Korshunov Mining Plant of RUB 113 million, Chelyabinsk Metallurgical Plant of RUB 132 million and Kuzbass Power Sales Company of RUB 155 million.

Net loss attributable to equity holders of the parent

Net loss attributable to our equity holders decreased by RUB 17,541 million, or 13.2%, to RUB 115,163 million in the year ended December 31, 2015 from RUB 132,704 million in the year ended December 31, 2014, due to the decrease of foreign exchange losses, losses of discontinued operations and partially offset by the increase in finance costs.

Liquidity and Capital Resources*Capital requirements*

We expect that our principal capital requirements in the near future will be for financing the repayment of maturing debt and regular maintenance capital expenditures.

Our business is heavily dependent on machinery for the production of steel and steel products, as well as investments in our mining operations. Investments to maintain and expand production facilities are, accordingly, an important priority and have a significant effect on our cash flows and future results of operations. We intend to focus our capital spending on the implementation of projects that we view as key to carrying out our business strategy and improve free cash flow. See Item 4. Information on the Company Capital Investment Program for the objectives of our capital investment program and its details. Over the next three years, i.e., 2016-2018, we expect our capital expenditures on our metals production facilities to total approximately 8,292 million rubles, approximately 65% of which will be in 2016-2017, and approximately 35% in 2018. We intend to spend approximately 6,255 million rubles for the development of the Elga coal deposit during the period from 2016 to 2018. We intend to finance our capital investments with cash flow from operations and external long-term financing sources.

Our total outstanding debt as of December 31, 2015 and 2014 was RUB 495,982 million and RUB 395,864 million, respectively. See Item 11. Quantitative and Qualitative Disclosures about Market Risk for information regarding the

type of financial instruments, currency and interest rate structure.

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In 2015 and 2014, we paid dividends of RUB 4.1 million and RUB 4.1 million, respectively, all of which were paid on preferred shares. See Item 8. Financial Information Dividend Distribution Policy for a description of our dividend policy.

Capital resources

Our strategy has shifted from growing our business through acquisition and expansion opportunities to extracting the maximum value from our existing core assets. We now intend to concentrate on efficiency improvements and modernization of the business lines, which we expect will increase the business overall profitability. We may also consider further selective disposal of assets.

Historically, our major sources of cash have been cash generated from operations, bank loans and public debt, and we expect these sources will continue to be our principal sources of cash in the future. For financing of our capital investment program we have also relied on financings secured by foreign export credit agency guarantees.

The table below summarizes our cash flows for the periods indicated.

	Year Ended December 31,	
	2015	2014
	(In millions of Russian rubles)	
Net cash provided by operating activities	9,982	28,072
Net cash used in investing activities	(10,062)	(17,739)
Net cash used in financing activities	(704)	(16,020)

Net cash provided by operating activities was RUB 9,982 million in the year ended December 31, 2015 as compared to net cash provided by operating activities of RUB 28,072 million in the year ended December 31, 2014. The operating cash inflows were derived from payments received from sales of our mining, steel and power products, reduced by cash disbursements for direct labor, raw materials and parts, selling, distribution and operating expenses, interest expense and income taxes.

Net cash used in operating activities before changes in working capital items was RUB 43,229 million in the year ended December 31, 2015. Net operating cash outflow of discontinued operations amounted to RUB 136 million. Below we analyze major changes in working capital items which in the aggregate accounted for RUB 2,787 million in cash provided by operating activities, resulting in net cash provided by operating activities of RUB 9,982 million.

Working capital items accretive to operating cash flows:

a decrease in inventories of RUB 1,873 million due to a significant decrease in finished goods of Mechel Carbon Singapore and Southern Kuzbass Coal Company as of December 31, 2015 as compared to December 31, 2014. The main reason for the change in the stock level was the decrease in production volumes in mining segment as a result of the decline of export sales;

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a decrease in accounts receivable of RUB 4,719 million primarily due to the decrease in sales of Mechel Carbon, Mechel Carbon Singapore, Urals Stampings Plant and Mechel Service; and

a decrease in other current assets of RUB 997 million primarily due to a decrease in VAT and other taxes receivable of Yakutugol, Chelyabinsk Metallurgical Plant and Mecheltrans.

Working capital items reducing operating cash flows:

a decrease in accrued taxes and other liabilities of RUB 1,465 million due to positive change in tax liabilities, primarily resulting from a release of tax liability related for the year ended December 31, 2015;

a decrease in accounts payable of RUB 7,972 million;

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a decrease in advances received of RUB 664 million of Chelyabinsk Metallurgical Plant, Mechel Service, Mechel Carbon, Donetsk Electrometallurgical Plant and Urals Stampings Plant; and

net change in balances with related parties of RUB 275 million.

Net cash used in operating activities before changes in working capital items was RUB 23,271 million in the year ended December 31, 2014. Net operating cash outflow of discontinued operations amounted to RUB 745 million. Below we analyze major changes in working capital items which in the aggregate accounted for RUB 22,995 million in cash provided by operating activities, resulting in net cash provided by operating activities of RUB 28,072 million.

Working capital items accretive to operating cash flows:

a decrease in inventories of RUB 14,565 million due to a significant decrease in finished goods and raw materials held in stock at the warehouses of Mechel Service Global, Mechel Carbon, Southern Kuzbass Coal Company and Chelyabinsk Metallurgical Plant as of December 31, 2014. The main reason for the change in the stock level was the decrease in production volumes across all our segments as a result of the continuation of weak demand in the European and Russian markets;

an increase in accrued taxes and other liabilities of RUB 8,771 million due to delays in payments;

a decrease in accounts receivable of RUB 2,089 million primarily due to the decrease in sales of Mechel Service, Korshunov Mining Plant, Mechel Carbon and Mechel Trading; and

an increase in advances received of RUB 62 million.

Working capital items reducing operating cash flows:

a decrease in other current assets of RUB 822 million primarily due to a decrease in VAT and other taxes receivable of Southern Kuzbass Coal Company and Mechel Service Global and repayment of accounts receivable to Romanian companies disposed of in 2013;

a decrease in accounts payable of RUB 1,640 million; and

net change in balances with related parties of RUB 29 million.

Net cash used in investing activities was RUB 10,062 million in the year ended December 31, 2015 as compared to net cash used in investing activities of RUB 17,739 million in the year ended December 31, 2014. Substantially all of the cash used in investing activities in the years ended December 31, 2015 and 2014 related to capital expenditures and the acquisition of businesses. Capital expenditures relating to purchases of property, plant and equipment, purchases of mineral licenses and interest paid, capitalized amounted to RUB 5,976 million and RUB 16,506 million in the years ended December 31, 2015 and 2014, respectively. Expenditures related to the acquisition of businesses

and investments amounted to RUB 4,819 million and RUB 3,223 million in the years ended December 31, 2015 and 2014, respectively. Cash provided by investing activities related to disposal of businesses and investments in the amount of RUB 177 million in the year ended December 31, 2015 as compared to RUB 632 million in the year ended December 31, 2014.

Net cash used in financing activities was RUB 704 million in the year ended December 31, 2015 as compared to net cash used in financing activities of RUB 16,020 million in the year ended December 31, 2014. We received debt proceeds of RUB 13,875 million and repaid debt of RUB 11,896 million in the year ended December 31, 2015 as compared to received debt proceeds of RUB 64,469 million and repaid debt of RUB 77,761 million in the year ended December 31, 2014.

Table of Contents**Liquidity**

We had cash and cash equivalents of RUB 3,079 million, RUB 3,983 million and RUB 8,979 million as of December 31, 2015, 2014 and January 1, 2014, respectively. Our cash and cash equivalents were held in rubles (20.6%, 23.3% and 8.1% as of December 31, 2015, 2014 and January 1, 2014, respectively), U.S. dollars (37.4%, 45.3% and 79.6% as of December 31, 2015, 2014 and January 1, 2014, respectively), euros (37.6%, 23.1% and 7.2% as of December 31, 2015, 2014 and January 1, 2014, respectively) and certain other currencies of the CIS and Eastern Europe.

The unused portion under the group's credit facilities as of December 31, 2015, 2014 and January 1, 2014 was RUB 409 million, RUB 1,879 million and RUB 9,191 million, respectively. As of December 31, 2015, 2014 and January 1, 2014, the group's credit facilities provided aggregated borrowing capacity of RUB 496,390 million (of which RUB 316,340 million is repayable during 2016 and RUB 175,743 million represented long-term debt that was reclassified as short-term liabilities as of that date because of covenant violations), RUB 397,743 million and RUB 301,520 million, respectively. The group's borrowings under these credit facilities (except for special-purpose borrowings such as pre-export facilities, Vnesheconombank's facilities as well as factoring and overdraft facilities) carried a weighted average interest rate of approximately 15.0%, 12.0% and 9.4% as of December 31, 2015, 2014 and January 1, 2014, respectively. See [Restrictive Covenants](#) for further information about our covenant violations.

The following table summarizes our liquidity as of December 31, 2015, 2014 and January 1, 2014.

Estimated Liquidity	December 31, 2015	December 31, 2014	January 1, 2014
	(In millions of Russian rubles)		
Cash and cash equivalents	3,079	3,983	8,979
Amounts available under credit facilities	409	1,879	9,191
Total estimated liquidity	3,488	5,862	18,170

Short-term debt (short-term borrowings and current portion of long-term debt) increased by RUB 105,156 million, or 27.2%, to RUB 491,674 million as of December 31, 2015 from RUB 386,518 million as of December 31, 2014, as a result of the weakening of the ruble against the U.S. dollar and the increase of accrued unpaid interest.

Long-term debt net of current portion decreased by RUB 5,038 million, or 53.9%, to RUB 4,308 million as of December 31, 2015 from RUB 9,346 million as of December 31, 2014. The decrease was primary attributable to the fact that significant part of long-term bonds are approaching maturity and were reclassified into short-term part as of December 31, 2015.

Our working capital remained negative and decreased by RUB 103,724 million, or 25.1%, to RUB 517,416 million as of December 31, 2015 from RUB 413,692 million as of December 31, 2014. The main reasons for the decrease in working capital were the ruble devaluation and the increase of accrued unpaid interest related to loans and finance lease contracts which increased the RUB amount of short-term debt by RUB 105,156 million.

Restructuring of financial indebtedness

In the first half of 2014, we experienced a shortage of liquidity and difficulties with refinancing of our debt; as a result, we failed to fulfill our payment obligations in connection with the servicing of the interest and the repayment of our indebtedness. Since 2014, we negotiate restructuring terms with our major lenders, such as Gazprombank, Sberbank and VTB Bank, and other lenders. As a result, in August, September and December 2015, we signed agreements with VTB Bank and Gazprombank contemplating, among other things, extension of the loan tenors, decrease in the interest rates, revision of the collateral requirements and dismissal of all court

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proceedings, all of which becomes effective upon fulfillment of all conditions precedent and conditions subsequent. During the period from December 2015 to April 2016, we signed agreements with Sberbank contemplating, among other things, extension of the loan tenors, decrease in the interest rates and dismissal of all court proceedings, all of which becomes effective upon fulfillment of all conditions precedent and conditions subsequent. See Debt Financings in 2016, Debt Financings in 2015, Description of Certain Indebtedness, Item 10. Additional Information Material Contracts, Item 8. Financial Information Significant Changes and Item 8. Financial Information Litigation Debt litigation.

VTB Bank restructuring became effective in October 2015. Gazprombank restructuring became partially effective in the first quarter of 2016 after conversion of the U.S. dollar-denominated credit facilities into Russian rubles. Restructuring under all facilities with Gazprombank will become effective after obtainment of approval on suretyship provision by Mechel on our general shareholders meeting or we will need to renegotiate this requirement with the bank. Restructuring agreements with Sberbank came into effect upon signing, however failure to comply with certain conditions will lead to termination of these agreements. Such conditions include payment of 31.5 billion rubles on Southern Kuzbass Coal Company debt, as well as repayment of part of the overdue interest and lease payments to Sberbank and Sberbank Leasing AO in the total amount of 2.8 billion rubles. In April 2016, Southern Kuzbass Coal Company's debt was assigned from Sberbank to Gazprombank in the amount of 31.5 billion rubles (\$423.1 million or 28.4 billion rubles at the CBR exchange rate on April 12, 2016 and 3.1 billion rubles). In April 2016, we signed option agreements with Gazprombank providing the bank with an option to acquire a 49% stake in the Elga coal complex for a total consideration of 34.3 billion rubles by June 30, 2016. Proceeds from this sale will be used for repayment of our debt to Gazprombank, Sberbank and Sberbank Leasing AO.

In September 2015, we restructured the debt on two series of Russian ruble bonds in an aggregate amount of 10.0 billion rubles. See Description of Certain Indebtedness Russian bonds for a description of the terms of restructuring.

During the period from December 2015 to May 2016, we signed settlement agreements with Sberbank Leasing AO which waived our previous defaults and restructured our future payment schedules. The settlement agreements will become effective upon approval at the court hearings which are ongoing.

We continue to negotiate financial restructuring with our Russian and international creditors and are focused on fulfillment of conditions upon which certain restructuring agreements shall come into effect.

Outlook for 2016

Our objective is to ensure that our group meets its liquidity requirements and payment obligations to creditors, continues capital expenditures, restructures and services its debt, and continues as a going concern. To accomplish that, we will continue to seek the restructuring of our existing indebtedness in order to alleviate the pressure on our cash flows. This will require aligning the servicing of the debt with operating cash flows by extending grace periods and maturities, converting foreign currency debt into rubles, reducing interest rates and amending the covenant requirements. We also intend to ask for state support as an additional source of funding or to reduce other borrowing costs.

We believe we will not be able to obtain significant new borrowings in the near future; however we may consider certain divestments and invite financial or strategic investors into our businesses in order to reduce the debt burden. We believe that cash generated from operations, subject to successful completion of debt restructuring, improved market conditions and reduced costs, as well as foreign currency gains, will be sufficient to meet our capital expenditures and debt service payments in 2016. Furthermore, we believe that we have the flexibility in deferring our non-critical capital expenditures and in managing our working capital to provide further financial flexibility as

needed.

Table of Contents***Debt Financings in 2016***

In April 2016, Southern Kuzbass Coal Company signed new settlement agreements with Sberbank which assigned part of the principal amount to Gazprombank. The principal in the total amount of \$423.1 million and 3.1 billion rubles was assigned with \$254.9 million remaining on Southern Kuzbass Coal Company. The remaining debt was restructured with extension of grace period and principal repayment, new interest rates and levels of financial covenants.

In March 2016, Yakutugol's loan from Gazprombank in the amount of \$103.1 million was converted into rubles resulting in the debt of 6.9 billion rubles. Restructuring of this credit facility became effective.

In February 2016, we signed restructuring agreements with Sberbank for Chelyabinsk Metallurgical Plant, Izhstal, Bratsk Ferroalloy Plant, Yakutugol, Korshunov Mining Plant, Mechel Trading and Southern Kuzbass Coal Company facilities totaling approximately 29.3 billion rubles and \$100.0 million. Restructuring granted an extension of grace period, extended repayments of our debt, new interest rates, partial capitalization of interests, as well as new levels of financial covenants.

In January 2016, part of Gazprombank debt, namely \$400.0 million and \$200.0 million credit facilities for Southern Kuzbass Coal Company and \$385.8 million and \$300.0 million credit facilities for Yakutugol were converted into rubles resulting in the total debt of approximately 99.0 billion rubles. Restructuring of these converted facilities became effective.

Debt Financings in 2015

During the course of 2015, we managed to reach an agreement with a part of our major creditors such as VTB Bank, Gazprombank, Sberbank and some others on the restructuring of the group's loan agreements including but not limited to the extension of the tenor of the loans, partial capitalization of interest payments, extension of the grace period, change of the interest rate calculation. See [Description of Certain Indebtedness](#) and [Item 10. Additional Information Material Contracts](#) for a summary description of the terms of these facilities.

In December 2015, Southern Kuzbass Coal Company signed settlement agreements with Sberbank on the credit facilities in the total amount of approximately \$678.0 million and 3.1 billion rubles. Upon approval of these agreements by the court, all debt under Southern Kuzbass Coal Company facilities became due and payable. In April 2016, new settlement agreements with Sberbank were signed and approved by the court.

In August and December 2015, Mechel Service, Chelyabinsk Metallurgical Plant, Mechel Energo, Beloretsk Metallurgical Plant, Port Posiet, Mechel Coke and Urals Stampings Plant signed amendments to their credit facility agreements with Gazprombank for a total amount of 26.8 billion rubles (approximately \$367.3 million as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022. As of the date hereof, restructuring of these credit facilities is not effective as there are some outstanding conditions precedent to be fulfilled.

In August and December 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with Gazprombank to restructure debt in a total amount of approximately \$1.3 billion (approximately 93.7 billion rubles as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022, as well as the conversion into Russian rubles. Restructuring of these credit facilities became effective in January 2016.

In August and December 2015, Yakutugol signed amendments to its credit facility agreement with Gazprombank to restructure debt totaling \$103.1 million (approximately 7.5 billion rubles as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022, as well as the conversion into Russian rubles. Restructuring became effective upon conversion of the loan amount in March 2016.

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In November 2015, Mechel Service signed amendments to its credit facilities with Moscow Credit Bank to restructure debt in the total amount of \$83.3 million, providing for an extension of the final maturity until February 2017.

In September 2015, Chelyabinsk Metallurgical Plant entered into an approximately 8.0 billion ruble (as calculated based on the market spot rate as of October 27, 2015) credit facility agreement with VTB Bank to refinance debts of Skyblock Limited and HBL Holding GmbH totaling \$107.7 million and 14.5 million, respectively, provided by VTB Bank. The facility has a grace period until April 2017 and the final maturity until April 2020.

In September 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with VTB Bank to restructure debt in the total amount of 15.8 billion rubles (approximately \$217.1 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

In September 2015, Southern Kuzbass Coal Company signed an amendment to its credit facility agreement with VTB Bank to restructure debt totaling 1.6 billion rubles (approximately \$22.6 million as of December 31, 2015), providing for an extension of the repayment grace period until April 6, 2017 and the final maturity until April 6, 2020. The restructuring came into effect on October 13, 2015.

In September 2015, Mechel signed an amendment to its credit facility agreement with VTB Bank to restructure debt in the total amount of 44.8 billion rubles (approximately \$614.3 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

In September 2015, Yakutugol signed a settlement agreement with Eurasian Development Bank to restructure debt in the amount of approximately 1.9 billion rubles (approximately \$25.5 million as of December 31, 2015). The final maturity of the credit facility agreement was extended until June 2018.

Debt Financings in 2014

During the course of 2014, we obtained or amended the following major debt financings. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In July 2014, Yakutugol and Southern Kuzbass Coal Company entered into amendments to their credit facility agreements with VTB Bank to refinance debt in the total amount of 15.8 billion rubles (approximately \$281.3 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. The loan was restructured in October 2015.

In May 2014, Mechel entered into an amendment to its credit facility agreement with VTB Bank to refinance debt in the amount of 40.0 billion rubles (approximately \$711.0 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. VTB Bank also provided an additional loan for redemption of ruble bonds in the amount of up to 3.8 billion rubles (approximately \$67.3 million as of December 31, 2014). The loan was restructured in October 2015.

In May 2014, Southern Kuzbass Coal Company entered into an amendment to its facility agreement with VTB Bank to refinance debt in the amount of 1.6 billion rubles (approximately \$28.4 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. The loan was restructured in October 2015.

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In March 2014, our subsidiary Elgaugol signed two loan agreements for an aggregate amount of \$2.5 billion with Vnesheconombank for the project financing of the development of the Elga coal deposit. The loans have a tenor of 13.5 years, with a repayment grace period of 3.5 years.

Debt Financings in 2013

During the course of 2013, we continued our refinancing efforts through extending some of our existing credit facilities, amending financial covenants, including agreeing with the lenders on a covenant holiday for Mechel and Mechel Mining's ratios of net borrowings to EBITDA for the relevant periods ending in December 31, 2013 and June 30, 2014. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company and a syndicate of banks coordinated by ING Bank N.V., Société Générale and VTB Capital Plc entered into an amendment agreement to the existing pre-export facility agreements for a total amount of \$1.0 billion. The amendments provide that the loan, which was entering the repayment phase in December 2013, will be repayable in equal monthly installments until December 2016 following a grace period of 12 months ending in December 2014.

In December 2013, several of our subsidiaries and Sberbank entered into separate amendments to their loan agreements totaling 26.6 billion rubles (approximately \$808 million) for the restructuring and refinancing of existing indebtedness and working capital. Of this amount, Chelyabinsk Metallurgical Plant accounted for 21.5 billion rubles (approximately \$655.9 million) and Mechel Trading, Izhtal, Southern Kuzbass Coal Company, Yakutugol, Korshunov Mining Plant and Bratsk Ferroalloy Plant accounted for, in the aggregate, 5.1 billion rubles (approximately \$156.2 million). The facilities totaling 13.4 billion rubles (approximately \$410.7 million) have a tenor of five years with a repayment grace period until March 28, 2015. In February and March 2016, our subsidiaries signed restructuring agreements with Sberbank.

In October 2013, our subsidiary Elgaugol entered into a \$150.0 million bridge facility with Vnesheconombank with a tenor of six months for the development of the Elga coal complex. As of December 31, 2015, the overdue principal and the overdue interest amounted to \$146.4 million and approximately \$3.0 million (approximately 10.7 billion rubles and 215.2 million rubles), respectively. In March 2016, the overdue interest was fully repaid. See also Item 10. Additional Information Material Contracts Project Finance Credit Facility for Elgaugol from Vnesheconombank.

In August 2013, Chelyabinsk Metallurgical Plant entered into a revolving credit facility with Alfa-Bank for a total amount of \$150.0 million. The facility was provided for working capital financing and was fully drawn as of December 31, 2013. In March 2014, the credit facility was amended providing for full repayment of the loan in five equal weekly installments, the last installment falling due not later than April 25, 2014. In April 2014, the facility was fully repaid.

In April 2013, Mechel entered into a 40.0 billion ruble (approximately \$1.3 billion) credit facility agreement with VTB Bank for a period of five years. The facility allowed a 15-month grace period and was to be repaid in equal installments on a quarterly basis. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to refinance other obligations of the companies within our group (including redemption of ruble bonds). In May 2014, we signed amendments with VTB Bank to refinance the facility, providing for an extension of grace period until April 2015 and final maturity until April 2018.

In April 2013, our subsidiaries Beloretsk Metallurgical Plant and Urals Stampings Plant entered into revolving credit facilities with Gazprombank for a total amount of 3.3 billion rubles (approximately \$106.9 million). The purpose of

the facilities was working capital financing. Initially, the term of the facilities was three years with the term of each tranche of up to 24 months. The credit facility agreements were restructured in August and December 2015.

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In April 2013, our subsidiaries Southern Kuzbass Coal Company and Yakutugol entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of \$889.0 million: \$400.0 million was made available to Southern Kuzbass Coal Company and \$489.0 million was made available to Yakutugol, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing of short-term debt provided by Gazprombank. As of December 31, 2015, the amount outstanding under the Southern Kuzbass Coal Company facility was \$400.0 million and the amount outstanding under the Yakutugol facility was \$385.8 million. The credit facility agreements were restructured and converted into rubles in January 2016. As a result, the debt of Southern Kuzbass Coal Company and Yakutugol amounted to a total of approximately 60.9 billion rubles.

In March and April 2013, our subsidiary Mecheltrans entered into two non-revolving credit facilities with Moscow Credit Bank for a total amount of \$88 million for a period of one year each with a bullet repayment. The facilities were provided for the purpose of working capital financing. In May 2013, the facilities amount was increased to \$105 million. In April 2014, we extended the maturity of the facilities until December 2014 and replaced the borrower with Mechel Service. In December 2014, the maturity of the facilities was extended until February 2016. In November 2015, the maturity was further extended until February 2017.

Debt Financings in 2012

During the course of 2012, we obtained or amended the following major debt financings. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2012, our subsidiaries Yakutugol and Southern Kuzbass Coal Company and a syndicate of banks coordinated by ING Bank N.V., Société Générale, UniCredit, JSCB Rosbank and ABN AMRO Bank N.V. entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total amount of \$1.0 billion. The amendments provided an extension of repayment grace period under the loan until December 2013. The loan was subsequently amended in December 2013.

In December 2012, following the repayment of the initial drawdown under a revolving credit line extended to Mechel Trading by Sberbank under a long-term framework agreement entered into in October 2011, Mechel Trading re-drew \$100.0 million under this credit line. In December 2013, the facility was restructured for a further period of five years.

In October 2012, Southern Kuzbass Coal Company obtained four non-revolving credit lines for five years from Sberbank for a total amount of 24.0 billion rubles (approximately \$772.3 million) with a three-year grace period. The purpose of the credit lines was working capital financing. In December 2015, Southern Kuzbass Coal Company signed settlement agreements which were approved by the court.

In April 2012, we extended our existing loans from VTB Bank for Yakutugol and Southern Kuzbass Coal Company in the total amount of approximately \$460.0 million for a period of up to three years. In July 2014, Yakutugol and Southern Kuzbass Coal Company signed amendments to the loan agreements, providing for an extension of grace period until April 2015 and final maturity until April 2018.

In April 2012, our subsidiaries Southern Kuzbass Coal Company and Yakutugol entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of \$500.0 million for a period of up to five years for the purpose of funding operational activities and refinancing our short-term debt. As of December 31, 2015, the amount outstanding under the Southern Kuzbass Coal Company facility was \$200.0 million and the amount outstanding under the Yakutugol facility was \$300.0 million. The credit facility agreements were restructured and

converted into rubles in January 2016. As a result, the debt of Southern Kuzbass Coal Company and Yakutugol amounted to a total of approximately 38.1 billion rubles.

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In April 2012, we completed placement of our non-convertible interest-bearing BO-05, BO-06, BO-07, BO-11 and BO-12 series exchange bonds in an aggregate principal amount of 15.0 billion rubles (approximately \$506.1 million). The proceeds were used to refinance some of our short-term debt. In April 2013, the bonds were redeemed for the entire amount.

In February 2012, we completed placement of our non-convertible interest-bearing BO-04 series exchange bonds in an aggregate principal amount of 5.0 billion rubles (approximately \$167.3 million). The proceeds were used to refinance our short-term debt. In February 2014, this series was redeemed for the total amount of 4.254 billion rubles. In February 2015, this series was fully repaid.

In January 2012, Mechel Trading refinanced its existing loans with Alfa-Bank through a new revolving line in the amount of \$150.0 million with the ability to draw tranches and with the final repayment to be made not later than October 2016. The proceeds were used for working capital and trade financing. The facility was fully repaid in September 2013.

Debt Financings in 2011

During the course of 2011, we obtained the following major debt financings. See Description of Certain Indebtedness and Russian bonds for a summary description of the terms of these facilities.

In October 2011, Mechel Trading obtained a revolving yearly renewable credit line from Sberbank in the amount of \$130.0 million for three years for the purposes of working capital, intra-group and pre-export financing. The credit line was made available under the long-term framework agreement with Sberbank. The initial drawdown was fully repaid in October and December 2012 to allow further drawdowns.

In October 2011, our subsidiary Mechel Energo obtained a credit line for two years from Gazprombank in the amount of 3.0 billion rubles (approximately \$102.1 million). The credit line was provided for the purpose of financing our day-to-day operations. In May 2012, we extended the credit line for up to 3.5 years and the amount of the credit line was increased up to 5.0 billion rubles. In December 2015, Mechel Energo's debt in the amount of 3.6 billion rubles was partially transferred to the other borrowers: 1.4 billion rubles to Chelyabinsk Metallurgical Plant, 2.0 billion rubles to Southern Kuzbass Coal Company and 0.2 billion rubles to Urals Stampings Plant. The rest of 1.4 billion rubles remained at Mechel Energo. The transfer of the debt came into effect on December 4, 2015.

In October 2011, our subsidiary Mechel Trading obtained a credit facility in the amount of \$180.0 million to refinance a portion of our short-term loans. The loan was provided by a syndicate of banks, ING Bank N.V., Barclays Capital Inc. and ZAO Unicredit Bank, for a period of three years with 18-month grace period. In May 2014, the facility was fully repaid.

In June 2011, Yakutugol obtained a non-revolving credit line for five years from Eurasian Development Bank in the amount of 2.8 billion rubles (approximately \$95.3 million) with a 24-month grace period for the sole purpose of financing the development of the Elga coal deposit. The loan was restructured in September 2015.

In June 2011, we completed placement of our non-convertible interest-bearing bonds of the 17th, 18th and 19th series in the aggregate amount of 15.0 billion rubles. The proceeds were used to refinance our short-term debt.

In March 2011, our subsidiary Chelyabinsk Metallurgical Plant obtained a revolving credit line for a period of 1.5 years from Gazprombank in the amount of 6.0 billion rubles (approximately \$204.2 million) for the purpose of working capital financing. In September 2011, the available limit was increased up to 11.0 billion rubles

(approximately \$374.3 million) and the period was extended up to five years. In May 2012, we extended the credit line for up to five years and the amount of the credit line was reduced to 6.0 billion rubles. The credit facility agreement was restructured in August and December 2015.

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In March 2011, our subsidiary Mechel Service obtained a revolving credit line from Gazprombank totaling 3 billion rubles (approximately \$102.1 million) for a period of 1.5 years. The purpose of the credit line was working capital financing. In October 2011, we agreed with the lender to increase the amount of the credit line up to 4.0 billion rubles (approximately \$136.1 million) and extend its period up to two years. In May 2012, we extended the credit line for up to 3.5 years and the amount of the credit line was increased up to 11.0 billion rubles. In February 2016, Mechel Service's debt in the amount of 9.6 billion rubles was partially transferred to the other borrowers: 1.4 billion rubles to Chelyabinsk Metallurgical Plant, 6.5 billion rubles to Southern Kuzbass Coal Company, 1.4 billion rubles to Mechel Coke and 0.3 billion rubles to Urals Stampings Plant. The rest of 1.4 billion rubles remained at Mechel Service. The transfer of the debt came into effect on February 4, 2016.

In February 2011, our subsidiary Mechel Trading House obtained a revolving credit line from Gazprombank totaling 3 billion rubles (approximately \$102.1 million) for a period of 1.5 years. The purpose of the loan was to finance the working capital of the company. In October 2011, the amount of the credit line was increased up to 4.0 billion rubles (approximately \$136.1 million) and the term was extended for a period of up to two years. In April 2012, the parties agreed to terminate the facility.

In February 2011, we completed two placements of our non-convertible interest-bearing bonds of the 15th and 16th series in the aggregate amount of 10.0 billion rubles. The proceeds were used to fund the working capital of our group, to refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. In 2014-2015, the 15th and 16th series were redeemed for the total amount of approximately 8.3 billion rubles.

On February 7, 2011, our subsidiary Southern Kuzbass Coal Company obtained a credit line in the amount of 6.2 billion rubles (approximately \$211.0 million) to finance the construction of the second stage of Sibirginskaya Underground. The loan had been provided by TransCreditBank OAO (now VTB Bank) for a period of five years with an amortized monthly repayment starting on February 2014 until December 2015 and was to be repaid in full by February 6, 2016. In May 2014, we signed amendments to the loan agreement to extend the repayment grace period until April 2015 and the final maturity until April 2018. As of December 31, 2014, the amount outstanding under the facility was 1.6 billion rubles (approximately \$28.4 million).

Restrictive Covenants

Almost all of our loan agreements contain a number of covenants and restrictions. Such covenants and restrictions include, but are not limited to, various financial ratios, limitations on amount of debt (including indebtedness of certain companies within our group), minimum value of shareholder equity, various information and certain other covenants, as well as acceleration and cross-default provisions. The covenants also include limitations on the amount of dividends on our common and preferred shares, and amounts that can be spent for capital expenditures, new investments and acquisitions. Unless a breach is remedied or a waiver is obtained, a breach of such covenants and restrictions generally permits lenders to demand accelerated repayment of principal and interest under their respective loan agreements. In addition, in the event of a payment default or the violation of certain other covenants and restrictions, creditors under other loan agreements can demand accelerated repayment of principal and interest under such other loan agreements pursuant to the cross-default provisions in such other agreements. See [Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting](#) Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, [Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting](#) If we are unable to restructure all of our indebtedness or

fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating

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

The table below sets out the requirements of our most significant restrictive debt covenants and the actual ratios/amounts as of December 31, 2015.

Restrictive Covenant	Requirement	Actual as of December 31, 2015
Mechel's Adjusted Shareholder Equity	Shall be greater than or equal to \$3.0 billion (RUB 218,648 million as of December 31, 2015)	Negative RUB 42,384 million
Mechel's Net Borrowings	Shall not exceed \$10.0 billion (RUB 728,827 million as of December 31, 2015)	RUB 492,903 million
Mechel's Net Borrowings to EBITDA ratio	Shall not exceed 9.75:1	11.2:1
Mechel's Total Borrowings to EBITDA ratio	Shall not exceed 9.5:1	11.2:1
Mechel's EBITDA to Net Interest Expense ratio	Shall not be less than 1.15:1	0.8:1
Mechel's EBITDA to Consolidated Financial Expense ratio	Shall not be less than 0.9:1	0.8:1

As of December 31, 2015, we were in breach of almost all major financial covenants contained in the group's loan agreements, except for the targeted amount of Net Borrowings.

As of December 31, 2015, Mechel Mining's financial covenants were not tested.

As of December 31, 2015 and as of the date hereof, we did not remedy or obtain the required waivers with respect to the breaches of the financial covenants under the applicable loan agreements.

In addition, as of December 31, 2015, we were in breach of a number of non-financial covenants under most of our credit facilities, including but not limited to facilities from VTB Bank, Gazprombank and Sberbank, as well as under the Pre-Export Facility Agreements. Such covenant breaches include, among others, the violation of negative pledge restrictions, the breach of maximum thresholds for unpaid liabilities and the existence of dispute resolution proceedings against various companies of the group with claims exceeding permitted thresholds.

Finally, as of December 31, 2015, we failed to pay scheduled principal and interest amounts within the prescribed grace periods under most of our loans, including but not limited to loans from Gazprombank and Sberbank, as well as under the Pre-Export Facility Agreements, and such amounts exceeded permitted thresholds.

As of December 31, 2015 and as of the date hereof, we did not remedy or obtain the required waivers with respect to the failure to pay the amounts due and the breaches of the non-financial covenants under the applicable loan agreements.

The failure to pay the scheduled principal and interest amounts as described above, as well as the breach of other covenants in our loan agreements, which were not remedied by us or waived by our creditors, permit the creditors under those loan agreements to accelerate the payment of principal and interest under those loan agreements, as well as trigger cross-default provisions under a number of other facilities, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans. For a more detailed description of the current terms of our loan agreements, see Description of Certain Indebtedness and Item 10. Additional

Information Material Contracts.

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The failure to pay amounts due, the non-compliance with financial and non-financial covenants and the triggering of the cross-default provisions resulted in the reclassification of our group's long-term debt into short-term liabilities in the amount of RUB 175,743 million as of December 31, 2015.

For a more detailed description of the existing payment defaults, breaches of covenants and restrictions, as well as other matters, see Item 13. Defaults, Dividend Arrearages and Delinquencies.

Our ability to meet the debt covenants has been estimated on the basis of our short-term budgets and long-term projection (the **Projection**) of the company. The Projection combines production plans by entities, key products and cost items price dynamics, maintenance and project capital investment program, loans portfolio and repayment schedule and other budgeted and projected items. It includes income and cash flow statements both on separate entities and consolidated level which is being used for purposes of debt covenants calculation. The Projection is prepared using assumptions that comparable market participants would use.

To forecast key product prices, exchange rates dynamics and inflation rates we use a wide variety of sources including the following institutions: Ministry of Economic Development of the Russian Federation, leading investment banks, Platts, CRU, Metal Expert, RasMin, Rudprom, World Bank, Oxford Economics, Consensus Economics, etc. along with our own estimates.

As of December 31, 2015, we projected the following covenant ratios for the forthcoming six-month and 12-month periods, which we are required to comply with under our most significant loan agreements:

Restrictive Covenant	Requirement	Projection as of June 30, 2016	Projection as of December 31, 2016
Mechel's Net Assets	Shall be greater than or equal to Mechel's share capital (RUB 4,163 million as of December 31, 2015)	Negative RUB 265,379 million	Negative RUB 268,375 million
Mechel's Net Borrowings to EBITDA ratio	Shall not exceed 9.0:1	10.2:1	11.4:1
Mechel's Total Borrowings to EBITDA ratio	Shall not exceed 7.5:1	10.2:1	11.4:1
Mechel's EBITDA to Net Interest Expense ratio	Shall not be less than 1.25:1	1.0:1	1.0:1
Mechel's EBITDA to Consolidated Financial Expense ratio	Shall not be less than 1.25:1	1.0:1	1.0:1

The significant assumptions underlying our debt covenant determination are projected product prices, sales volumes, cost dynamics, inflation rates and discount rates. Some of these assumptions may materially deviate from our historical results primarily due to the market downturns and economic slowdowns in the recent years. All these material assumptions are based on our projections and are subject to risk and uncertainty. See Item 3. Key Information

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

Description of Certain Indebtedness

See Item 10. Additional Information – Material Contracts for a summary description of material contracts related to our indebtedness. In addition, we have described below certain additional contracts related to our indebtedness. For more information, see Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Restrictive Covenants, Item 13. Defaults, Dividend Arrearages and Delinquencies and Item 8. Financial Information – Litigation – Debt litigation.

Table of Contents***Credit Facility Agreement for Yakutugol from Gazprombank******General***

On February 6, 2009, our subsidiary Yakutugol entered into a credit facility agreement with Gazprombank for a total amount of \$550.0 million for the purposes of funding financial and operating activities, including funding affiliates and credit repayments. The facility was initially repayable in quarterly installments starting from the first quarter of 2010 through the first quarter of 2012, however in February 2010 the final maturity was extended until February 2015.

As of December 31, 2014, the amount outstanding under the credit facility was \$103.1 million. In August and December 2015, Yakutugol signed amendments to the credit facility agreement with Gazprombank to restructure debt totaling \$103.1 million, providing for an extension of the grace period until April 2020 and the final maturity until April 2022. In March 2016, the loan amount was converted into rubles resulting in the debt of 6.9 billion rubles. Restructuring of the credit facility became effective.

As of December 31, 2015, the overdue principal and the overdue interest under the facility amounted to \$103.1 million and \$8.2 million (approximately 7.5 billion rubles and 594.1 million rubles), respectively. All overdue interest shall be repaid until the end of March 2017.

Interest rate and interest period

Starting from the effective date, the interest is payable at the CBR key rate plus 1.5% per year. The lender may change the interest rate on the CBR key rate plus 3.5% per year if the borrower fails to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid in accordance with the principal repayment schedule.

Repayment and prepayments

The final maturity date is April 20, 2022. Repayment is to be made in equal monthly installments starting from April 4, 2020. The lender may change the final maturity date on April 20, 2020 if the borrower fails to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. In this case repayment is to be made in equal monthly installments starting from April 4, 2017.

The borrower may prepay the loan in full or in part with a 30 day prior notice to the lender.

Guarantee

The borrower's obligations under the credit facility are guaranteed by Mechel Mining, Mechel Carbon, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel and Southern Kuzbass Coal Company.

Security

The borrower's obligations are secured by a pledge of 25%+1 share in each of Southern Kuzbass Coal Company, Korshunov Mining Plant, Port Posiet, Izhstal, Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant and Urals Stampings Plant, 50%+1 share in Yakutugol and 25% in Port Temryuk. In March 2016, we mortgaged the Ulak-Elga rail line under the credit facility agreement.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

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Under the credit facility agreement, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 in 2016, 5.5:1 in 2017, 4.5:1 in 2018, 3.5:1 in 2019 and 3.0:1 in 2020. Mechel group's ratio of EBITDA to consolidated financial expense shall not be less than 1.25:1 in 2016, 1.50:1 in 2017, 1.75:1 in 2018, 2.0:1 in 2019 and 2.5:1 in 2020. During the period from 2017 to 2020, we also have to comply with the ratios of operational cash flow to EBITDA and EBITDA to revenues at the levels of 80% and 20%, respectively.

The credit facility contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control provisions and cross-defaults relating to other debt.

The credit facility agreement is governed by Russian law.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from VTB Bank***General***

In September 2010, our subsidiaries Yakutugol and Southern Kuzbass Coal Company each entered into agreements further amending the one-year credit facility agreements executed with VTB Bank in November 2008 and further amended in November 2009, for the total amount of 13.6 billion rubles (approximately \$422.4 million). In April 2012, we amended the credit facility agreements to extend their term until 2015 and change certain financial covenants.

In April 2014, VTB Bank converted the 13.6 billion ruble loan into U.S. dollars; as a result the debt of Yakutugol and Southern Kuzbass Coal Company amounted to \$461.8 million. In July 2014, the debt was converted back into rubles and Yakutugol and Southern Kuzbass Coal Company signed amendments to the credit facility agreements in the amount of 5.8 billion rubles and 10.0 billion rubles (approximately \$103.4 million and \$177.9 million as of December 31, 2014), respectively, providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018.

In September 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with VTB Bank to restructure debt in the total amount of 15.8 billion rubles (approximately \$217.1 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

As of December 31, 2015, Yakutugol and Southern Kuzbass Coal Company had overdue penalty in the amount of 1.6 million rubles and 2.8 million rubles, respectively. We have requested the lender to write off the overdue penalty.

Interest rate and interest period

Interest under the credit facilities is payable at the CBR key rate plus 2.35% per year until January 6, 2018; and at the CBR key rate plus 2.99% per year from January 7, 2018. The lender may increase the interest rate by 1% per year if the borrowers fail to meet certain obligations under the credit facilities.

Repayment and prepayments

The final maturity of the credit facilities for both Southern Kuzbass Coal Company and Yakutugol is April 6, 2020. Each of the facilities is to be repaid in equal monthly installments starting on April 6, 2017. Prepayment for all or part of the loan amounts is allowed subject to simultaneous compliance with certain requirements.

Guarantee

The borrowers' obligations are guaranteed by Mechel Mining, Mechel Carbon, Mechel Carbon Singapore, Mechel Trading, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel and cross guarantee between Southern Kuzbass Coal Company and Yakutugol.

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Security

The borrowers' obligations are secured by a pledge of 25%-3 shares of Yakutugol, 25%+1 share of Southern Kuzbass Coal Company and 25%+1 share of Korshunov Mining Plant.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel group's ratio of net borrowings to EBITDA shall not exceed 9.00:1 until December 31, 2016, 8.00:1 until December 31, 2017, 7.00:1 until December 31, 2018, 6.00:1 until December 31, 2019, 5.00:1 until December 31, 2020 and thereafter. Mechel group's ratio of EBITDA to net interest expense shall not be less than 1.25:1 until December 31, 2016, 1.50:1 until December 31, 2017, 1.75:1 until December 31, 2018, 2.00:1 until December 31, 2019, 2.25:1 until December 31, 2020 and thereafter. Financial covenants are tested semi-annually.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults relating to other debt, as well as limitations on payment of dividends, acquisitions and disposals and non-core transactions.

The credit facility agreements are governed by Russian law.

Credit Facility Agreement for Chelyabinsk Metallurgical Plant from Sberbank

General

On October 13, 2010, Sberbank opened a credit line for Chelyabinsk Metallurgical Plant for the total amount of 15.0 billion rubles (approximately \$493.9 million) to refinance short-term debt. On December 19, 2013, the borrower and Sberbank entered into an amendment to the loan agreement by extending the term of the facility by five years with a repayment grace period until March 30, 2015 and amending the security structure. As of December 31, 2015, the facility was fully drawn.

In February 2016, Chelyabinsk Metallurgical Plant signed an amendment to its credit facility agreement with Sberbank to restructure debt in the total amount of 15.0 billion rubles, providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The grace period will be extended until January 2020 and the final maturity until April 2022, if we obtain similar terms with Gazprombank and VTB Bank. The amendment became effective upon signing, however, failure to comply with certain terms will lead to termination of the amendment. All overdue interest payments shall be capitalized, except for agreed amount which shall be paid.

As of December 31, 2015, the overdue principal and the overdue interest under the facility amounted to 9.0 billion rubles and 994.3 million rubles, respectively.

Interest rate and interest period

Starting from January 1, 2016, the interest under the credit facility is payable at the CBR key rate plus 3.5% per year, then starting from April 1, 2016, the interest is payable at the CBR key rate plus 1.5% per year. The lender may change the interest rate to the CBR key rate plus 3.5% per year if the borrower fails to obtain similar terms with

Gazprombank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid at the final maturity date.

Repayment and prepayments

Should we obtain similar terms with Gazprombank and VTB Bank, the final maturity date shall be extended until April 10, 2022. In October 2016, the payment of 3.7 billion rubles shall be made and in October 2017 the

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payment of 5.2 billion rubles shall be made. The remaining amount is payable in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loan in full or in part with prior notice to the lender.

Guarantee

The borrower's obligations under the credit facility agreement are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Southern Kuzbass Coal Company, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group's ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

Credit Facility for Mechel Trading from Sberbank*General*

In December 2013, Mechel Trading and Sberbank entered into an amendment to the existing \$100.0 million credit facility (two tranches for \$25.0 million and \$75.0 million) by extending the term of the facility by five years with a repayment grace period until March 2015 and amending the security structure. The purpose of the credit facility was working capital, intra-group and pre-export financing. As of December 31, 2015, the facility was fully drawn.

In February 2016, Mechel Trading signed an amendment to its credit facility with Sberbank to restructure debt totaling \$100.0 million, providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The grace period will be extended until January 2020 and the final maturity until April 2022, if we obtain similar terms with Gazprombank and VTB Bank. The amendment became effective upon signing, however, failure to comply with certain terms will lead to termination of the amendment. All overdue interest payments shall be capitalized, except for agreed amount which shall be paid.

As of December 31, 2015, the overdue principal and the overdue interest under the facility amounted to \$20.0 million and \$4.3 million (approximately 1.5 billion rubles and 311.2 million rubles), respectively.

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Interest rate and interest period

The interest rate under both tranches is payable quarterly at 3-month LIBOR plus a margin of 7%. Starting from January 1, 2016 and during the grace period, we apply the rate of 3-month LIBOR plus a margin of 5% for interest repayment. The remaining unpaid interests are being capitalized and paid at the final maturity date.

Repayment and prepayments

Should we obtain similar terms with Gazprombank and VTB Bank, the final maturity date shall be extended until April 10, 2022. The repayment is to be made in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loan in full or in part with prior notice to the lender.

Guarantee

The borrower's obligations under the credit facility are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Southern Kuzbass Coal Company, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group's ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

Credit Facility Agreement for Chelyabinsk Metallurgical Plant from Sberbank

General

On December 19, 2013, Sberbank opened a credit line for Chelyabinsk Metallurgical Plant in a total amount of 12.4 billion rubles for a period of five years with a repayment grace period until March 28, 2015. The purpose of the

credit line was redemption of Mechel's bonds and financing of day-to-day operations. As of December 31, 2015, the facility was fully drawn.

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In February 2016, Chelyabinsk Metallurgical Plant signed an amendment to its credit facility agreement with Sberbank to restructure debt in the total amount of 12.4 billion rubles, providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The grace period will be extended until January 2020 and the final maturity until April 2022, if we obtain similar terms with Gazprombank and VTB Bank. The amendment became effective upon signing, however, failure to comply with certain terms will lead to termination of the amendment. All overdue interest payments shall be capitalized, except for agreed amount which shall be paid.

As of December 31, 2015, Chelyabinsk Metallurgical Plant had the overdue principal in the amount of 2.5 billion rubles and the overdue interest in the amount of 991.6 million rubles.

Interest rate and interest period

Starting from January 1, 2016, the interest under the credit facility is payable at the CBR key rate plus 3.5% per year, then starting from April 1, 2016, the interest is payable at the CBR key rate plus 1.5% per year. The lender may change the interest rate to the CBR key rate plus 3.5% per year if the borrower fails to obtain similar terms with Gazprombank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid at the final maturity date.

Repayment and prepayments

Should certain conditions be fulfilled the final maturity date is April 10, 2022. In October 2016, the payment of 1.2 billion rubles shall be made. The remaining amount is payable in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loan in full or in part with prior notice to the lender.

Guarantee

The borrower's obligations under the credit facility agreement are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Southern Kuzbass Coal Company, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group's ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

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Credit Facility Agreement for Chelyabinsk Metallurgical Plant from VTB Bank

General

In September 2015, Chelyabinsk Metallurgical Plant entered into an approximately 8.0 billion ruble (as calculated based on the market spot rate as of October 27, 2015) credit facility agreement with VTB Bank to refinance debts of Skyblock Limited totaling \$107.7 million, which consists of principal and interest in the amount of \$101.9 million and \$5.8 million, respectively, and HBL Holding GmbH totaling 14.5 million, provided by VTB Bank. The facility has a grace period until April 2017 and the final maturity until April 2020.

Interest rate and interest period

The interest rate under the credit facility is set at the level of the CBR key rate plus 2.35% per year until January 6, 2018 and from January 7, 2018 at the level of the CBR key rate plus 2.99% per year. The lender may increase the interest rate by 1% per year if the borrower fails to meet certain obligations under the facility.

Repayment and prepayments

The credit facility is repayable in equal monthly installments starting on April 6, 2017. The final maturity date is April 6, 2020. The borrower may prepay the loan in full or in part subject to simultaneous compliance with certain requirements.

Guarantee

The borrower obligations are guaranteed by Southern Kuzbass Coal Company, Korshunov Mining Plant, Urals Stampings Plant, Mechel, Yakutugol, Mechel Mining, Mechel Trading, Mechel Carbon Singapore and Mechel Carbon.

Security

The borrower obligations are secured by a pledge of 25%-3 shares of Yakutugol, 25%+1 share of Southern Kuzbass Coal Company and 25%+1 share of Korshunov Mining Plant.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group's ratio of net borrowings to EBITDA shall not exceed 9.00:1 until December 31, 2016, 8.00:1 until December 31, 2017, 7.00:1 until December 31, 2018, 6.00:1 until December 31, 2019, 5.00:1 until December 31, 2020 and thereafter. Mechel group's ratio of EBITDA to net interest expense shall not be less than 1.25:1 until December 31, 2016, 1.50:1 until December 31, 2017, 1.75:1 until December 31, 2018, 2.00:1 until December 31, 2019, 2.25:1 until December 31, 2020 and thereafter. Financial covenants are tested semi-annually.

The credit facility contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults relating to other debt, as well as limitations on payment of dividends, acquisitions and disposals and non-core transactions.

The credit facility agreement is governed by Russian law.

Russian bonds

On July 30, 2009, we placed series 04 non-convertible interest-bearing bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at

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MICEX. The bonds are secured by a guarantee from Yakutugol. The proceeds were used to fund the construction of the Elga coal complex. The bonds are due on July 21, 2016. The bonds bear a coupon to be paid quarterly. The interest rate for the first 12 coupons was set at 19% per annum, for the 13-16 coupons was set at 11.25% per annum, for the 17-22 coupons was set at 13% per annum, for the 23-24 coupons was set at 8% per annum and for the 25-28 coupons was set at 2% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. The bonds are included on the CBR Lombard list; if the CBR excludes the bonds from this list, the bondholders may also demand early redemption of the bonds. We partially redeemed the bonds ahead of maturity on July 29, 2013 in the amount of 1.349 billion rubles, on January 27, 2014 in the amount of 1.276 billion rubles, on July 28, 2014 in the amount of 858 million rubles, on January 26, 2015 in the amount of 325 million rubles and on July 27, 2015 in the amount of 372.43 million rubles.

On September 7, 2010, we placed series 13 and series 14 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 10% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. In September 2015, we restructured the debt on series 13 and series 14 bonds. We were entitled to redeem the bonds on September 3, 2015, but failed to fulfill our obligations. On September 14, 2015, we published public irrevocable offers through which the bondholders were proposed to amend current schedules of redemption of the bonds and to waive the right to demand early redemption of the bonds. On September 17, 2015, the majority of the owners of the bonds series 13 and series 14 approved the new conditions at the general meeting of bondholders. On October 21, 2015, the CBR registered amendments to the equity documents. In accordance with the new conditions, the interest rate for the 11 coupon is set at 15% per annum and for the following coupon periods is determined by a formula based on the CBR key rate. The interest rate for the 12-13 coupons is set at $(15\% + (\text{key rate} + 4\%))/2$, for the 14-15 coupons is set at $(14\% + (\text{key rate} + 4\%))/2$, for the 16-17 coupons is set at $(13\% + (\text{key rate} + 4\%))/2$ and for the 18-19 coupons is set at $(12\% + (\text{key rate} + 4\%))/2$. We have to redeem the bonds amounting up to 500 thousand bonds of each series on September 28, 2015 and amounting up to 250 thousand bonds of each series on March 1, 2016 and August 31, 2016. We will gradually redeem the par value of both series of the bonds: 10% of par value on February 28, 2017, August 29, 2017 and February 27, 2018, 15% of par value on August 28, 2018 and February 26, 2019 and 20% of par value on August 27, 2019 and February 25, 2020. The bonds are due on February 25, 2020. On September 28, 2015, we partially redeemed the bonds of both series in the total amount of 999.34 million rubles which equaled to 999,341 bonds. On March 1, 2016, we partially redeemed the bonds of both series in the total amount of 485.1 million rubles which equaled to 485,089 bonds.

On February 22, 2011, we placed series 15 and series 16 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. The bonds are due on February 9, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 6

coupons was set at 8.25% per annum, for the 7-8 coupons was set at 13% per annum and for the 9-11 coupons was set at 8% per annum. We will be entitled to set the interest

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rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on August 12, 2016 until August 16, 2016. We are entitled to redeem such bonds on August 18, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. We partially redeemed the series 15 and series 16 bonds ahead of maturity on February 20, 2014 in the amount of 8.149 billion rubles, on August 21, 2014 in the amount of 75 million rubles and on February 19, 2015 in the amount of 37.2 million rubles.

On June 9, 2011, we placed series 17 and series 18 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on May 27, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 8.40% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on May 29, 2016. We are entitled to redeem the bonds on June 6, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

On June 14, 2011, we placed series 19 non-convertible interest-bearing bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on June 1, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 8.40% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on June 3, 2016. We are entitled to redeem the bonds on June 9, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

Table of Contents**Contractual Obligations and Commercial Commitments**

The following table sets forth the amount of our contractual obligations and commercial commitments as of December 31, 2015.

Contractual Obligations and Commercial Commitments	Total	Payments Due by Period			
		Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
		(In millions of Russian rubles)			
Short-Term Borrowings and Current Portion of Long-Term Debt	491,674	491,674			
Long-Term Debt Obligations, Net of Current Portion	4,308		1,991	2,317	
Interest Payable ⁽¹⁾	1,038	1,038			
Operating Lease Obligations	59,207	1,798	3,476	3,467	50,466
Purchase Obligations ⁽²⁾	3,593	3,593			
Restructured Taxes Payable	465	328	137		
Rehabilitation provision ⁽³⁾	3,704	264	694	464	2,282
Pension obligations ⁽⁴⁾⁽⁵⁾	4,562	1,120	751	759	1,932
Short-Term Finance Lease Obligations	13,507	13,507			
Long-Term Finance Lease Obligations	481		461	20	
Contractual commitments to acquire plant, property and equipment ⁽⁶⁾	23,231	23,207	24		
Contractual commitments to acquire raw materials and for delivery of goods and services	58,604	54,201	2,047	199	2,158
Estimated financial costs ⁽⁷⁾	218,046	39,098	84,110	94,838	
Estimated average interest rate ⁽⁷⁾	9.0%	9.9%	8.8%	8.8%	
Total Contractual Obligations and Commercial Commitments	882,419	629,827	93,690	102,064	56,838

(1) Interest payable as of December 31, 2015 includes RUB 996 million of interests and fines accrued on overdue payments related to finance lease contracts. Interest payable is included in amount of RUB 1,038 million in current period figure. In the year ended December 31, 2015, our interest expense was RUB 59,505 million and we paid out RUB 29,216 million of interest.

(2) Accounts payable for capital expenditures.

(3) See note 23 to the consolidated financial statements.

(4) See note 24 to the consolidated financial statements.

(5) Includes RUB 3,746 million pension obligations due in more than one year.

(6) See note 29 to the consolidated financial statements.

(7) Interest expense is estimated for a five-year period based on (1) estimated cash flows and change of the debt level, (2) forecasted LIBOR rate where applicable, (3) actual long-term contract interest rates and fixed rates, forecasted with reasonable assurance on the basis of historic relations with major banking institutions.

As of December 31, 2015, we guaranteed the fulfillment of obligations to third parties for a total amount of RUB 56 million. These guarantees are given by us under promissory notes, which were transferred by endorsement.

Commitments for capital expenditures were RUB 23,231 million as of December 31, 2015. This amount includes our contractual commitments related to acquisition of property, plant and equipment arising from various purchase and construction agreements in respect of railway construction for the Elga coal complex in the amount of RUB 19,890 million. See note 29 to the consolidated financial statements.

The total carrying and discounted amount of commitments under lease contracts as of December 31, 2015 is equal to RUB nil. See note 29 to the consolidated financial statements.

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Inflation

Inflation in the Russian Federation was 12.9% in 2015 and 11.4% in 2014. Inflation has generally not had a material impact on our results of operations during the period under review in this section. However, we cannot guarantee that inflation will not materially adversely impact our results of operations in the future in case inflation accelerates. See

Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Inflation could increase our costs and decrease operating margins.

Critical Accounting Policies and Estimates

Basis of preparation

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for specific financial assets and liabilities that have been measured at fair value and certain exemptions applied by us under IFRS 1 First-time Adoption of International Financial Reporting Standards (see note 9 to the consolidated financial statements).

Russian associates and subsidiaries of our group maintain their books and records in Russian rubles and prepare accounting reports in accordance with the accounting principles and practices mandated by Russian Accounting Standards (RAS). Foreign subsidiaries and associates maintain their books and records in different foreign functional currencies and prepare accounting reports in accordance with generally accepted accounting principles (GAAP) in various jurisdictions. Our and our subsidiaries and associates financial statements and accounting reports for the purposes of preparation of the consolidated financial statements in accordance with IFRS have been translated and adjusted on the basis of the respective standalone RAS or other GAAP financial statements.

The accompanying consolidated financial statements differ from the financial statements issued for the RAS and other GAAP purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) purchase accounting; (2) recognition of interest expense and certain operating expenses; (3) valuation and depreciation of property, plant and equipment and mineral licenses; (4) defined benefit plans; (5) foreign currency translation; (6) deferred income taxes; (7) accounting for tax penalties, uncertainties and contingencies; (8) revenue recognition; (9) valuation allowances for unrecoverable assets; and (10) recording investments at fair value.

For all periods up to and including the year ended December 31, 2014, we prepared our financial statements in accordance with generally accepted accounting principles in U.S. GAAP. The accompanying consolidated financial statements for the year ended December 31, 2015 are the first we have prepared in accordance with IFRS. Refer to note 9 for information on how our group adopted IFRS.

The consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise our and our subsidiaries financial statements as of December 31, 2015. Control is achieved when our group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, we control an investee if, and only if, we have:

power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

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exposure, or rights, to variable returns from its involvement with the investee; and

the ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when we obtain control over the subsidiary and ceases when we lose control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date our group gains control until the date our group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (loss) (**OCI**) are attributed to the equity holders of the parent of our group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with our group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of our group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If our group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in the statement of profit (loss) and other comprehensive income (loss). Any investment retained is recognized at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, we elect whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When our group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the statement of profit (loss) and other comprehensive income (loss).

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, our group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of profit (loss) and other comprehensive income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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Where goodwill has been allocated to a cash-generating unit (**CGU**) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

An associate is an entity over which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Our investments in our associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in our share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit (loss) and other comprehensive income (loss) reflects our group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of our group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, our group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between us and the associate are eliminated to the extent of the interest in the associate.

The aggregate of our group's share of profit or loss of an associate is shown on the face of the statement of profit (loss) and other comprehensive income (loss) outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as ourselves. When necessary, adjustments are made to bring the accounting policies in line with those of our group.

After application of the equity method, our group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, we determine whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, our group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as Share of profit of an associate in the consolidated statement of comprehensive income (loss).

Upon loss of significant influence over the associate, our group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in in the consolidated statement of comprehensive income (loss).

Current versus non-current classification

We present assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

Expected to be realized or intended to be sold or consumed in the normal operating cycle;

Held primarily for the purpose of trading;

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Expected to be realized within twelve months after the reporting period; or

Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

It is expected to be settled in the normal operating cycle;

It is held primarily for the purpose of trading;

It is due to be settled within twelve months after the reporting period; or

There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

We classify all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability; or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by our group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to our group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duty.

Revenues are inflows from sales of goods that constitute ongoing major operations of our group and are reported as such in the statement of profit (loss) and other comprehensive income (loss). Inflows from incidental and peripheral operations are considered gains and are included, net of related costs, in other income in the consolidated statement of profit (loss) and other comprehensive income (loss).

The following criteria are also applicable to other specific revenue transactions:

Sales of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, associated sales taxes (VAT) and export duties.

Principal vs agent arrangements

We are involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when our group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when our group has earned a commission or fee as an agent.

Shipping and handling costs

We classify all amounts billed to customers in a sale transaction and related to shipping and handling as part of sales revenue and all related shipping and handling costs as selling and distribution expenses when we are acting as a principal in accordance with the requirements of IAS 18 Revenue.

Sales of power

In the power segment (see note 28 to the consolidated financial statements), revenue is recognized based on unit of power measure (kilowatts) delivered to customers, since at that point revenue recognition criteria are met. The billings are usually done on a monthly basis, several days after each month end.

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (**EIR**). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit (loss) and other comprehensive income (loss).

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where our group operates and generates taxable income.

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Uncertain tax positions

Our policy is to comply fully with the applicable tax regulations in the jurisdictions where our operations are subject to income taxes. Our estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by our subsidiaries will be subject to a review or audit by the relevant tax authorities. We and the relevant tax authorities may have different interpretations of how regulations should be applied to actual transactions. Such uncertain tax positions are accounted for in accordance with IAS 12 Income Taxes and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. We apply single most likely outcome method of uncertain tax positions estimation.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Foreign currencies

Our consolidated financial statements are presented in Russian rubles, which is also the parent company's functional currency. For each entity, we determine the functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies for our main Russian, European, Ukrainian and Kazakh subsidiaries are the Russian ruble, euro, the Ukrainian hryvnia and the Kazakh tenge, respectively. The U.S. dollar is the functional currency of our other main international operations. We use the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by our group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The following table presents the exchange rates for the functional and operating currencies at various subsidiaries, other than the presentation currency:

Currency	Rates at			Average exchange rates*	
	December 31,		January 1,	for the years ended	
	2015	2014	2014	December 31,	2014
U.S. dollar	72.88	56.26	32.73	60.96	38.42
Euro	79.70	68.34	44.97	67.78	50.82
Ukrainian hryvnia	3.05	3.56	3.97	2.83	3.25
Kazakh tenge	0.22	0.31	0.21	0.28	0.21

(*) Exchange rates shown in Russian rubles for one local currency unit.

The majority of the balances and operations not already denominated in the presentation currency were denominated in the U.S. dollar and euro.

The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the CBR and are generally considered to be a reasonable approximation of market rates.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into rubles at the rate of exchange prevailing at the reporting date and their statements of profit (loss) and other comprehensive income (loss) are translated at the weighted average exchange rate for the period. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

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Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Non-current assets held for sale and discontinued operations

We classify non-current assets (or disposal group) as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

Represents a separate major line of business or geographical area of operations;

Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit (loss) and other comprehensive income (loss).

Additional disclosures are provided in note 17. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Mineral licenses

Mineral licenses acquired separately are measured on initial recognition at cost. The cost of mineral licenses acquired in a business combination is their fair value at the date of acquisition. Mineral licenses are amortized under a unit of production basis over proven and probable reserves of the relevant area.

In order to calculate proven and probable reserves, estimates and assumptions are used about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. There are numerous uncertainties inherent in estimating proven and probable reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

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We established a policy according to which internal mining engineers review our proven and probable reserves annually. This policy does not change our approach to the measurement of proven and probable reserves as of their acquisition dates as part of business combinations that involve independent mining engineers. Our proven and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

Property, plant and equipment

Property, plant and equipment and construction in progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation provision, and, for qualifying assets (where relevant), borrowing costs and other costs incurred in connection with the borrowings. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When significant parts of property, plant and equipment are required to be replaced at intervals, we depreciate them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Where a separately depreciated asset, or part of an asset, is replaced, the expenditure is capitalized. Where part of the asset was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. All other repair and maintenance costs are recognized in the statement of profit (loss) and other comprehensive income (loss) as incurred.

The capitalized value of a finance lease is also included in property, plant and equipment. The present value of the expected cost for the rehabilitation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Inventories planned to be used for construction and spare parts with useful lives over one year are recorded within property, plant and equipment.

Mining assets and processing plant and equipment

Mining assets and processing plant and equipment are those assets, including construction in progress, which are intended to be used only for the needs of a certain mine or field, and upon full extraction exhausting of the reserves of such mine or the field, these assets cannot be further used for any other purpose without a capital reconstruction.

Items of production mines are stated at cost, less accumulated depletion and accumulated impairment losses, if any.

Costs of developing new underground mines are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. Additionally, interest expense subject to allocation to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of identified proven and probable reserves. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless we conclude that a future economic benefit is more likely than not to be realized.

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Stripping costs incurred in the development phase of a mine, before the production phase commences, are capitalized as part of cost of constructing the mine. The capitalization of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. Stripping costs undertaken during the production phase of mine are charged to profit and loss as cost of goods sold as incurred.

When mining assets and processing plant and equipment are placed in production, the applicable capitalized costs, including mine development costs, are depleted using the unit-of-production method at the ratio of tonnes of mineral mined or processed to the estimated proven and probable mineral reserves that are expected to be mined during the estimated lives of the mines. The unit-of-production method is used for the underground mine development structure costs as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

A decision to abandon, reduce or expand activity on a specific mine is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral licenses, and the likelihood that we will continue exploration on the mine. Based on the results at the conclusion of each phase of an exploration program, properties that are not economically feasible for production are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the companies owning such mineral rights.

Other property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocated material and manufacturing overhead costs. When construction activities are performed over an extended period, borrowing costs incurred in connection with the borrowing of funds are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

Property, plant and equipment (apart from railway of the Elga coal deposit) are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the statement of profit (loss) and comprehensive income (loss).

The following useful lives are used as a basis for calculating depreciation:

Category of asset	Useful economic lives estimates, years
Buildings and constructions	5-85
Operating machinery and equipment	2-30
Transportation vehicles	2-25
Other equipment	2-15
<i>Leases</i>	

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not

explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to our group is classified as a finance lease.

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Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit (loss) and other comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that we will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit (loss) and other comprehensive income (loss) on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest including exchange differences arising from foreign currency borrowings and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of our group during the period.

According to IAS 23 Borrowing Costs, borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Foreign exchange differences on borrowings directly attributable to the acquisition, construction or production of a qualifying asset are considered by us to be eligible for capitalization in the amount of difference between actual amount of interest costs and potential amount of interest costs calculated using a weighted average of rates applicable to ruble-nominated borrowings of our group during the period. All other borrowing costs are recognized in the statement of profit (loss) and other comprehensive income (loss) in the period in which they are incurred.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years.

Financial instruments initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (**AFS**) financial assets, or as derivatives. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

Financial assets at fair value through profit or loss;

Loans and receivables;

Held-to-maturity investments; and

AFS financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit (loss) and other comprehensive income (loss).

Loans and receivables

This category is the most relevant to our group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit (loss) and other comprehensive income (loss). The losses arising from impairment are recognized in the statement of profit (loss) and other comprehensive income (loss) in finance costs for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to note 13.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

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After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit (loss) and other comprehensive income (loss) in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from our consolidated statement of financial position) when:

The rights to receive cash flows from the asset have expired; or

We have transferred our rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) we have transferred substantially all the risks and rewards of the asset, or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes to the consolidated financial statements: Financial assets (note 11) and Trade and other receivables (note 13).

We assess, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred loss event), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If our group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Our financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

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Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognized in the statement of profit (loss) and other comprehensive income (loss).

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 Financial Instruments: Recognition and Measurement are satisfied.

Loans and borrowings

This is the category most relevant to our group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit (loss) and other comprehensive income (loss). This category generally applies to interest-bearing loans and borrowings (see note 11 to the consolidated financial statements).

Financial guarantee contracts

Financial guarantee contracts issued by our group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit (loss) and other comprehensive income (loss).

Derivative financial instruments

We use derivative financial instruments, such as cross currency swap and cross currency option. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and

are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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For the years ended December 31, 2015, 2014 and as of January 1, 2014, we did not have any derivatives designated as hedging instruments.

Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined under the weighted average cost method, and includes all costs in bringing the inventory to its present location and condition. The elements of costs include direct material, labor and allocable material and manufacturing overhead.

Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and allocation of fixed and variable production overheads. Raw materials are valued at a purchase cost inclusive of freight and other shipping costs.

Coal and iron ore inventory costs include direct labor, supplies, depreciation of equipment, depletion of mining assets and amortization of licenses to use mineral reserves, mine operating overheads and other related costs. Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

Impairment of non-current assets

Further disclosures relating to impairment of non-current assets are also provided in the following notes to the consolidated financial statements: Intangible assets (note 20) and Impairment of goodwill and other non-current assets (note 19).

We assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Our CGUs represent single entities with one component of business in each case. As of December 31, 2015, we had the following number of CGUs by segments for impairment testing purposes: Steel 9, Mining 7 and Power 2.

In assessing value in use, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs of disposal, recent market transactions are taken into account.

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

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

Impairment losses of continuing operations are recognized in the statement of profit (loss) and other comprehensive income (loss) in expense categories consistent with the function of the impaired asset.

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

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

Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of our group's cash management.

Provisions

General

Provisions are recognized when our group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation including legal or tax proceedings obligations and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit (loss) and other comprehensive income (loss).

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provision

Mine rehabilitation costs will be incurred by us either while operating, or at the end of the operating life of, our facilities and mine properties. We assess our mine rehabilitation provision at each reporting date. Our group

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recognizes a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment.

Any reduction in the rehabilitation provision and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit (loss) and other comprehensive income (loss).

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of profit (loss) and other comprehensive income (loss) as part of finance costs.

For closed sites, changes to estimated costs are recognized immediately in the statement of profit (loss) and other comprehensive income (loss).

Environmental expenditures and liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Pensions and other post-employment benefits***Defined benefit pension and other post-retirement plans***

We have a number of defined benefit pension plans that cover the majority of production employees. Benefits under these plans are primarily based upon years of service and average earnings. We account for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of profit (loss) and other comprehensive income (loss), so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan.

Our obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield at the year end on highly rated long-term bonds.

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Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognized directly in the statement of comprehensive income.

For unfunded plans, we recognize a pension liability, which is equal to the projected benefit obligation. For funded plans, our group offsets the fair value of the plan assets with the projected benefit obligations and recognizes the net amount of pension liability. The market value of plan assets is measured at each reporting date.

State pension fund

Our Russian subsidiaries are legally obligated to make defined contributions to the Russian Pension Fund, managed by the Russian Federation Social Security (a defined contribution plan financed on a pay-as-you-go basis). Our contributions to the Russian Pension Fund relating to defined contribution plans are charged to income in the year, to which they relate.

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Estimates and assumptions are continually evaluated and are based on our experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying our accounting policies, management has made the following judgments, which have the most significant effect on the amount recognized in the consolidated financial statements.

Abandoned Activity

As of January 1, 2014, Southern Urals Nickel Plant was recognized as abandoned activity according to a decision to close Southern Urals Nickel Plant without sale. In July 2013, we received an approval from the governmental authorities to abandon the industrial complex. The closure of Southern Urals Nickel Plant is aligned with the revised strategy aimed at restructuring the group's assets and development of its core businesses. As of December 31, 2015, the works related to closure of the plant are ongoing (see note 17) therefore we excluded the result of Southern Urals Nickel Plant from the continuing operations and reported them as discontinued operations for the year ended December 31, 2015 and prior periods.

Capitalization of Interest Related to the Elga Coal Deposit and Railway Construction

In 2013 and 2014, Elgaugol and Vnesheconombank signed credit agreements for financing of the Elga coal project approved by the Vnesheconombank's Supervisory Board in September 2013. The use of proceeds under these facilities is limited to the development of the Elga coal project. Borrowing costs under these facilities that are directly attributable to the construction of the Elga coal project are capitalized. Borrowing costs consist of interest including exchange differences arising from revaluation of foreign currency borrowings and other costs that we incur in connection with the debt servicing.

Railway Depreciation Method

In 2015, we commenced to depreciate the railway of the Elga coal deposit using units of production method. In applying the units of production method, depreciation is normally calculated based on produced and delivered

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tonnes in the period as a percentage of total expected tonnes to be produced and delivered in current and future periods over the Elga coal deposit life cycle. Our analysis has shown that the consumption of the economic benefits of the asset is linked to production and delivery of coal. We assess the total or ultimate railway capacity in tonnes at least at each financial year end and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Principal vs Agent Arrangements

We make significant judgment on gross or net revenue recognition. We evaluate the relevant facts and circumstances and take into consideration the following factors in determining whether to recognize revenue on a gross basis: (1) we have the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer; (2) we have inventory risk before or after the customer order, during shipping or on return; (3) we have latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and (4) we bear the customer's credit risk for the amount receivable from the customer.

Otherwise, revenues are reported net when our group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. In the situation when we act as a supplier and as a buyer with the same counterparty, we analyze the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below or in the related accounting policy note. We based our assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of our group.

In particular, we have identified a number of areas where significant estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below.

Deferred Tax Assets and Uncertain Tax Positions

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits and the existence of taxable temporary differences (see note 21 to the consolidated financial statements). Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the statement of profit (loss) and other

comprehensive income (loss).

Table of Contents*Impairment of Property, Plant and Equipment and Other Non-current Assets*

We assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, we make an estimate of the asset's recoverable amount. An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (see note 19).

Impairment of Goodwill

We determine whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in note 19 to the consolidated financial statements.

Useful Lives of Items of Property, Plant and Equipment

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Mineral Reserves

Mineral reserves and the associated mine plans are a material factor in our computation of a depletion charge. Estimation of reserves involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgment and development of assumptions. Mine plans are periodically updated which can have a material impact on the depletion charge for the period. More details are provided in note 3(i) to the consolidated financial statements.

Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments

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include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see note 10 to the consolidated financial statements).

Provisions

We are subject to various legal proceedings, disputes and claims, including regulatory discussions related to our group's business, licenses, tax positions and the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require us to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable (see note 23 to the consolidated financial statements).

Pensions and Other Post-employment Benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. More details are provided in note 24 to the consolidated financial statements.

Rehabilitation Provisions

We review rehabilitation provisions at each reporting date and adjust them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities. Rehabilitation provisions are recognized in the period in which they arise and are stated at the best estimate of the present value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment (see note 18 to the consolidated financial statements).

Impairment of Financial Assets

We make allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Determining Net Realizable Value of Inventories

We make write-downs for obsolete and slow-moving raw materials and spare parts. In addition, finished goods of our group are carried at net realizable value (see note 15 to the consolidated financial statements). Estimates of net

realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

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For other judgments, estimates and assumptions and details refer to: Mineral licenses (note 3(i)), Property, plant and equipment (note 3(j)), Recovery of deferred tax assets (note 3(f)), Non-current assets held for sale and discontinued operations (note 3(h)), Inventories (note 3(p)), Impairment of non-current assets (note 3(q)), Pensions and other post-employment benefits (note 3(t)), Provisions (note 3(s)) and Fair value measurement (note 3(d)).

Standards issued but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to our group's operations were in issue but not yet effective.

The effect from the application of IFRS 9 Financial Instruments – Classification and Measurement, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases and has not yet been assessed.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no material impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014. We do not intend to adopt this standard before its effective date.

IAS 39 Financial Instruments: Recognition and Measurement – Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the own use scope exception (see below when IFRS 9 will be applied).

IFRS 7 Financial Instruments: Disclosures – Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (see below when IFRS 9 will be applied).

IFRS 9 Financial Instruments – Classification and Measurement. Finalized version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective for annual periods beginning on or after January 1, 2018).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

IFRS 9 will change the categories of financial assets to those that are carried at amortized cost and those that are carried at fair value. This will mainly affect the classification of our available for sale financial assets and held to maturity investments; and

IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

In particular, for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS

39 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

Table of Contents***IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint***

Ventures Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture. This amendment has no impact to us as we do not plan to make any sales or contribution of assets to our associates or joint ventures during the period (effective for annual periods beginning on or after January 1, 2016).

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28

Investments in Associates and Joint Ventures Amendments regarding the application of the consolidation exception by investment entities. This amendment has no impact to us as we are not an investment entity (effective for annual periods beginning on or after January 1, 2016).

IFRS 11 Joint Arrangements Amendments regarding the accounting for acquisitions of an interest in a joint operation. Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 (effective for annual periods beginning on or after January 1, 2016). This amendment has no impact to us as we do not plan to acquire an interest in joint operations.

IAS 1 Presentation of Financial Statements Amendments resulting from the disclosure initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2016).

IAS 16 Property, Plant and Equipment and IAS 38 Intangibles Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment. This amendment has no impact to us as we do not use revenue-based methods to depreciate/amortize our non-current assets (effective for annual periods beginning on or after January 1, 2016).

IAS 7 Statement of Cash Flows Amendments resulting from the disclosure initiative. The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2017).

IFRS 15 Revenue from Contracts with Customers. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after January 1, 2018). We are currently in the process of assessing the impact of adoption of IFRS 15 on our consolidated financial statements.

IFRS 16 Leases. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after January 1, 2019). We are currently in the process of assessing the impact of adoption of IFRS 16 on our consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The September 2014 Annual Improvements to IFRSs is a collection of amendments to IFRSs in response to four standards. These improvements are effective from January 1, 2016 and are not expected to have a material impact on our group. It includes the following amendments:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Changes in methods of disposal;

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IFRS 7 Financial Instruments: Disclosures Servicing contracts and Applicability of the amendments to IFRS 7 to condensed interim financial statements;

IAS 19 Employee Benefits Discount rate: regional market issue; and

IAS 34 Interim Financial Reporting Disclosure of information elsewhere in the interim financial report.

First-time Adoption of IFRS

The accompanying financial statements, for the year ended December 31, 2015, are the first we have prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2014. For periods up to and including the year ended December 31, 2014, we prepared our consolidated financial statements in accordance with U.S. GAAP.

Accordingly, we have prepared financial statements that comply with IFRS applicable as of December 31, 2015, together with the comparative period data for the year ended December 31, 2014, as described in the summary of significant accounting policies (see note 3 to the consolidated financial statements). In preparing the financial statements, our opening consolidated statement of financial position was prepared as of January 1, 2014, our date of transition to IFRS. This note explains the principal adjustments made by us in representing our U.S. GAAP financial statements, including the statement of financial position as of January 1, 2014 and the financial statements for the year ended December 31, 2014 in order to comply with IFRS.

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

assets and liabilities denominated in currencies other than Russian ruble were translated into Russian rubles at the closing rates of exchange on the relevant balance sheet date;

income and expenditure denominated in currencies other than Russian ruble were translated at the average rates of exchange prevailing for the relevant period; and

the cumulative translation reserves were set to nil as of January 1, 2014, the date of transition to IFRS. Share capital, share premium and other reserves were translated at the historical rates, and subsequent rates prevailing on the date of each transaction.

As a first-time adopter of IFRS, we applied IFRS 1 First-time Adoption of International Financial Reporting Standards. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS, which we have applied as of January 1, 2014.

We have applied the mandatory exceptions and certain optional exemptions as set out below:

Business combinations We have not applied IFRS 3 Business Combinations retrospectively to the business combinations that occurred before the date of transition to IFRS. As a result, assets recognized and liabilities assumed in the past business combinations under U.S. GAAP have remained unchanged at the date of transition, except for the changes described in the notes below.

Currency translation differences We have used the IFRS 1 exemption relating to IAS 21 The Effects of Changes in Foreign Currency Rates. As a result, the cumulative translation differences for all of our foreign operations were set to be zero at the date of transition. The gain or loss on a subsequent disposal of any foreign operations will include only exchange differences that arose after the date of transition.

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Borrowing costs We have applied the transitional provisions in IAS 23 Borrowing Costs, and capitalize borrowing costs on qualifying assets after the date of transition, and where the construction was commenced as of and after the date of transition to IFRS according to IAS 23 Borrowing Costs. Borrowing costs capitalized under U.S. GAAP prior to the date of transition have not been adjusted.

Rehabilitation provision We have elected to use the IFRS 1 exemption relating to recognition of changes in the measurement of rehabilitation provision and therefore measure those in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities as of January 1, 2014.

Pension obligations We have elected to recognize all cumulative actuarial gains and losses as at the date of transition in retained earnings. We are not required to re-compute the unrecognized portion of actuarial gains and losses from the inception of the defined benefit plans. Instead, we apply IAS 19 Employee Benefits from the date of transition. Therefore, at the date of transition, we recognize the pension obligations in accordance with IAS 19 Employee Benefits and no unrecognized actuarial gains and losses are presented at the transition date.

Estimates The estimates as of January 1, 2014 and December 31, 2014 are consistent with those made as of the same dates in accordance with U.S. GAAP apart from the estimates described above.

Changes in the presentation (CP) We changed the presentation of certain items in the consolidated statement of financial position and statement of profit (loss) and comprehensive income (loss) as compared to the presentation under the previously issued U.S. GAAP financial statements. The most significant changes in the presentation related to:

CP(1) Other accounts receivable (RUB 1,920 million as of January 1, 2014 and RUB 932 million as of December 31, 2014) are presented within Trade and other receivables in the consolidated statement of financial position. Under U.S. GAAP, we reflected Other accounts receivable within Other current assets.

CP(2) Income tax receivable (RUB 2,936 million as of January 1, 2014 and RUB 578 million as of December 31, 2014) is presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Prepayments and other current assets.

CP(3) Other current financial assets (RUB 360 million as of January 1, 2014 and RUB 186 million as of December 31, 2014) are presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, Other current financial assets were reflected within Prepayments and other current assets.

CP(4) Interest payable (RUB 2,051 million as of January 1, 2014 and RUB 14,615 million as of December 31, 2014) is presented as part of Interest-bearing loans and borrowings in the consolidated statement of financial position. Under U.S. GAAP, Interest payable was reflected within Accrued expenses and Other current liabilities.

CP(5) Rehabilitation provision (non-current portion of RUB 1,655 million and current portion of RUB 66 million as of January 1, 2014, non-current portion of RUB 2,459 million and current portion of RUB 195 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Rehabilitation provision was presented as a separate item.

CP(6) Provision for taxes other than income tax (RUB 521 million as of January 1, 2014 and RUB 769 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Provision for taxes other than income tax was reflected within Taxes and social charges payable.

CP(7) Accrual for unused vacation (RUB 1,618 million as of January 1, 2014 and RUB 1,651 million as of December 31, 2014) is presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, it was presented within Accrued expenses and other current liabilities.

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CP(8) Dividends payable (RUB 108 million as of January 1, 2014 and RUB 104 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, Dividends payable were reflected as a separate item.

CP(9) Other current liabilities (RUB 7,233 million as of January 1, 2014 and RUB 27,989 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, they were reflected as a separate item.

CP(10) Provision for taxes and other provisions (RUB 325 million as of January 1, 2014 and RUB 1,285 million as of December 31, 2014) are presented within Provisions in the consolidated statement of financial position. Under U.S. GAAP, they were reflected within Accrued expenses and other current liabilities.

CP(11) Income tax payable (RUB 594 million as of January 1, 2014 and RUB 1,272 million as of December 31, 2014) is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, Income tax payable was reflected within Taxes and social charges payable. Long-term income tax payable in the amount of RUB 3,447 million as of December 31, 2014 is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Other non-current liabilities.

CP(12) We adopted net presentation of the input and output VAT on advances against advances issued and received for the purpose of harmonization with the RAS. Under U.S. GAAP, we presented advances and related VAT on advances in gross amounts. The effect of the changes was as follows:

As of the date of transition to IFRS, it resulted in the decrease in advances received from related parties of RUB 71 million, decrease in advances issued and VAT on advances received included in Other current assets line in the amount of RUB 623 million, decrease in advances received of RUB 302 million and decrease in VAT on advances issued within Tax payable other than income tax of RUB 392 million; and

As of December 31, 2014, it resulted in the decrease in advances issued and VAT on advances received included in Other current assets in the amount of RUB 536 million, decrease in Advances received of RUB 292 million and VAT on advances within Tax payable other than income tax of RUB 244 million.

CP(13) Other operating income is presented as a separate item (RUB 851 million for the year ended December 31, 2014) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected within Administrative and other operating expenses, net.

CP(14) We presented Other non-current financial assets in a separate line in the statement of financial position. Under U.S. GAAP financial statements, these assets were included in Other non-current assets in the amount of RUB 201 million and RUB 59 million as of December 31, 2014 and January 1, 2014, correspondingly. Investments in associates are presented within Other non-current financial assets. Under U.S. GAAP, they were reflected within Investments in associates (RUB 72 million as of December 31, 2014).

CP(15) We present provisions for legal claims (RUB 367 million as of January 1, 2014 and RUB 36 million as of December 31, 2014) as part of Provisions. Under U.S. GAAP, they were reflected within Other payables.

CP(16) Other income and Other expenses are presented as separate lines (RUB 684 million and RUB 1,486 million for the year ended December 31, 2014, respectively) in the consolidated statement of profit (loss) and other

comprehensive income (loss). Under U.S. GAAP, it was reflected together.

Additionally, certain reclassifications have been made to the December 31, 2014 consolidated statement of financial position to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated statement of financial position, and have no impact on net income or equity of our group.

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Property, plant and equipment and mineral licenses Our property, plant and equipment and mineral licenses are recorded at historical cost of acquisition. To arrive at IFRS historical cost we used the historical cost of property, plant and equipment and mineral licenses in accordance with U.S. GAAP as we believe that it reasonably approximates historical values in accordance with IFRS, and adjusted it through retrospective application of the requirements of IAS 16 Property, Plant and Equipment, IAS 36 Impairment of Assets and IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities as described in notes C, E, F below.

A Debt issuance costs

In accordance with IFRS, fees paid on origination of loan facilities are recognized as transaction costs which are deducted from outstanding debt and are amortized using the effective interest rate method. Under U.S. GAAP, debt issuance costs were capitalized as a separate asset and included in Other current or non-current assets and then amortized using the effective interest rate method. The amounts reclassified from other current and non-current assets to remeasure debt liabilities in order to comply with IFRS requirements comprised RUB 2,766 million (current portion of RUB 2,743 million and non-current portion of RUB 23 million) and RUB 4,409 million (current portion of RUB 1,730 million and non-current portion of RUB 2,679 million) as of December 31, 2014 and January 1, 2014, respectively. The differences in effective interest rate method calculations under IFRS and U.S. GAAP resulted in a RUB 1,051 million decrease in the balance of Interest-bearing loans and borrowings and corresponding decrease in Foreign exchange gain (loss), net in the consolidated statement of profit (loss) and other comprehensive income (loss).

B Exchange differences

Under U.S. GAAP, we recognized exchange differences on foreign operations in a separate component of equity. Exchange differences for all foreign operations are deemed to be zero as at the date of transition in order to comply with IFRS requirements. A reclassification in equity from Accumulated other comprehensive income (loss) to Accumulated losses of RUB 13,568 million was made as of January 1, 2014.

C Rehabilitation provision expenses

According to U.S. GAAP, rehabilitation provision (asset retirement obligations) was measured based on the estimated cost of rehabilitation, discounted to its net present value upon recognition. Adjustments to discount rate were not reflected in the provisions under U.S. GAAP unless there was an upward revision in the future cost estimates. We have taken the exemption and applied IFRIC 1 Changes in the Existing Decommissioning, Restoration and Similar Liabilities; correspondingly, the rehabilitation provision as of January 1, 2014 was revalued using current discount rate as of that date. In the subsequent periods, the rehabilitation provision was remeasured using the current discount rate as of the end of each reporting period. This resulted in the following differences between rehabilitation provision recorded in the consolidated financial statements under IFRS and amounts reported under U.S. GAAP:

As of January 1, 2014: increase in Current rehabilitation provision in the amount of RUB 31 million, increase in Non-current rehabilitation provision in the amount of RUB 2,433 million, increase in Property, plant and equipment in the amount of RUB 1,057 million;

As of December 31, 2014: increase in Current rehabilitation provision in the amount of RUB 6 million, increase in non-current rehabilitation provision in the amount of RUB 539 million, decrease in Property, plant and equipment in the amount of RUB 637 million; increase in assets and liabilities classified as held for sale in the amount of RUB 170 million;

Accretion expense is presented within Finance costs under IFRS. Under U.S. GAAP, it was presented as a separate line Accretion expenses. Accretion expense amounted to RUB 191 million under U.S. GAAP and RUB 256 million under IFRS for the period ended December 31, 2014; and

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The difference in Rehabilitation provision methodology between U.S. GAAP and IFRS as described above resulted in the increase in Loss from discontinued operations related to Southern Urals Nickel Plant in the amount of RUB 264 million under U.S. GAAP for the year ended December 31, 2014 (see note 17 to the consolidated financial statements).

D Actuarial gains and losses

At the date of transition to IFRS, we recognized actuarial gain/loss accumulated in prior period in retained earnings. Under IFRS, all prior service costs (positive or negative) are recognized in profit or loss when the employee benefit plan is amended and are not allowed to be spread over any future service period, which may create volatility in profit or loss whereas prior service cost is recognized in other comprehensive income/(loss) under U.S. GAAP at the date the plan amendment is adopted and then amortized into income over the participants' remaining years of service, service to full eligibility date, or life expectancy, depending on the facts and circumstances. Finally, U.S. GAAP requires a pension contribution tax to be recognized as a component of net benefit cost in the period in which the contribution is made. Under IFRS, taxes related to benefit plans are included in the calculation of the benefit obligation. All aforementioned differences resulted in the following adjustments:

As of January 1, 2014: increase in Current pension obligations and decrease in Non-current pension obligations amounted to RUB 215 million and RUB 74 million, respectively;

As of December 31, 2014: increase in Current pension obligations and Non-current pension obligations amounted to RUB 22 million and RUB 57 million, respectively;

Actuarial gains and losses under our defined benefit plans of RUB 696 million were recycled from other comprehensive income/loss to accumulated losses as of January 1, 2014; and

Administrative and other operating expenses increase in the amount of RUB 195 million for the period ended December 31, 2014.

E Impairment of non-current assets and goodwill

Under U.S. GAAP, goodwill is tested for impairment by using a two-step approach. Under the first step, the fair value of a reporting unit is compared to its carrying value. A reporting unit is the level, at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired. Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit's goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

Under IFRS, impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

We recognized differences related to impairment of non-current assets other than goodwill — property, plant and equipment and mineral licenses.

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Under U.S. GAAP requirements, in the first step of impairment testing, the carrying value of non-current assets is compared to the undiscounted cash flows of reporting unit, and only if the carrying amount exceeds the undiscounted cash flows, the second step is performed where the carrying amount is compared to the discounted cash flows. Under IFRS requirements impairment is determined by comparison of the carrying amount to the recoverable amount, which is determined through the use of discounted cash flows. This difference in requirements resulted in the difference in impairment testing of non-current assets of two CGUs – Bluestone companies and Ekos-plus as of January 1, 2014. According to the first step of impairment testing under U.S. GAAP no excess of the carrying value over the undiscounted cash flows was identified, therefore the second step of testing was not performed, and no impairment of non-current assets was recognized. As a result of the impairment test in accordance with IAS 36 Impairment of Assets, excess of the carrying value over the recoverable amount was identified for Bluestone companies in the amount of RUB 40,491 million including impairment of property, plant and equipment of RUB 4,185 million and mineral licenses of RUB 54,862 million, and the respective effect on deferred taxes of RUB 18,556 million; and for Ekos-plus in the amount of RUB 51 million related to property, plant and equipment as of January 1, 2014.

As of December 31, 2014, Bluestone companies were recognized as disposal group classified as held for sale in the consolidated financial statements under IFRS as well as under U.S. GAAP. In the both sets of consolidated financial statements net assets of Bluestone companies were written down to fair value less cost to sell and as of December 31, 2014 there is no difference in the carrying value of Bluestone companies' non-current assets between IFRS and U.S. GAAP. A difference arose in the amount of impairment loss recognized by us in respect of Bluestone companies in the year ended December 31, 2014, as, under IFRS, impairment was partially recognized at the date of transition, whereas in the U.S. GAAP financial statements, the total amount of impairment loss was recognized by us in the year ended as of December 31, 2014. The difference in Profit (loss) after tax from discontinued operations, net for the year ended December 31, 2014 amounted to RUB 69,424 million. This difference also affected Other comprehensive income (loss) as impairment was recognized in different periods under IFRS and under U.S. GAAP – effect on currency translation adjustment comprised RUB 28,933 million in the year ended December 31, 2014.

Other difference between IFRS and U.S. GAAP requirements relates to the reversal of previously recognized impairment loss. If there is a change in estimates used to determine the recoverable amount, previously recognized impairment loss of property, plant and equipment can be reversed under IFRS whereas no such reversal is allowed according to U.S. GAAP requirements. This difference has affected the value of non-current assets of Donetsk Electrometallurgical Plant. According to U.S. GAAP, we recognized impairment loss in the consolidated financial statements as of June 30, 2013. The recoverable value was determined on binding offer from a third party. As of December 31, 2013, the recoverable value of Donetsk Electrometallurgical Plant has increased. According to U.S. GAAP previously identified impairment loss was not reversed. As of January 1, 2014, according to IFRS requirements we partially reversed impairment loss previously recognized in the amount of RUB 477 million. Due to the difference in the carrying value of Donetsk Electrometallurgical Plant's non-current assets as of January 1, 2014, the difference in impairment loss recognized during the period ended December 31, 2014 arose in the consolidated financial statement under IFRS as compared to those previously prepared in accordance with U.S. GAAP in the amount of RUB 258 million.

F Negative goodwill

In accordance with U.S. GAAP (ASC 805 Business combination), we recognized negative goodwill which arose on our business combinations carried out before January 1, 2009 as deferred credit for an excess of net assets acquired over cost and allocated it to the acquired non-current assets, except for the deferred taxes. In order to comply with IFRS, we derecognized the carrying amount of that deferred credit at the transition date.

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As of the date of transition to IFRS, this difference affected Inventories (increase of RUB 189 million), Property, plant and equipment (increase of RUB 3,950 million), Mineral licenses (decrease of RUB 433 million), Deferred tax liabilities (increase of RUB 437 million);

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As of December 31, 2014, this difference affected Inventories (increase of RUB 185 million), Property, plant and equipment (increase of RUB 2,449 million), Mineral licenses (decrease of RUB 393 million), Deferred tax liabilities (increase of RUB 163 million);

For the year ended December 31, 2014, this difference affected Cost of goods sold (increase of RUB 444 million); and

For the year ended December 31, 2014, this difference affected Impairment of goodwill and other non-current assets (increase of RUB 973 million).

G Discontinued operations

In accordance with U.S. GAAP, we recognized and presented Bluestone companies as disposal group held for sale as of January 1, 2014 in the comparative information to our consolidated financial statements for the year ended December 31, 2014 when criteria for recognition of Bluestone companies as disposal group held for sale were met. Under IFRS, we also recognized Bluestone companies as asset held for sale as of December 31, 2014. In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, reclassification of comparative information in the statement of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented is not required, therefore we did not amend the presentation of our assets and liabilities in the comparative statement of financial position as of January 1, 2014. The effect of changes related to discontinued operations presentation made to comply with IFRS requirements, is presented in a separate column in the table below.

We recognized several subsidiaries as discontinued operations in our previously issued U.S. GAAP consolidated financial statements as of December 31, 2013: Toplofikatsia Rousse, Invicta Merchant Bar, Lomprom Rostov, Tikhvin Ferroalloy Plant, Voskhod-Oriel, Voskhod-Chrome and Voskhod-Trading. These subsidiaries do not meet IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requirements to be recognized as discontinued operations as they do not represent a separate major line of business or geographical area of operations. We disposed of all these subsidiaries before December 31, 2013, and residual income and expenses related to these operations were presented as discontinued operations in the U.S. GAAP consolidated financial statements for the year ended December 31, 2014. In these financial statements prepared under IFRS we present these income and expenses as part of continuing operations. This resulted in the following adjustments to the U.S. GAAP amounts: increase in Revenue of RUB 126 million, increase in Cost of goods sold of RUB 140 million, increase in Allowance for doubtful accounts of RUB 567 million, and increase in Administrative and other operating expenses of RUB 204 million, and respective decrease in Loss from discontinued operations of RUB 785 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS as compared to the consolidated statement of operations under U.S. GAAP for the period ended December 31, 2014.

H Inventory provision

We recalculated net realizable value provision in order to comply with IAS 2 Inventories requirements. This resulted in the increase in the Inventories balance in the amount of RUB 166 million as of January 1, 2014 and RUB 193 million as of December 31, 2014, and decrease in Cost of goods sold of RUB 31 million for the year ended December 31, 2014.

I Borrowing costs

We recalculated borrowing costs capitalized in accordance with IFRS requirements. The effect of recalculations resulted in the increase in Property, plant and equipment in the amount of RUB 1,194 million as of December 31, 2014 in the consolidated statement of the financial position under IFRS as compared to U.S. GAAP and decrease in Finance costs of RUB 337 million and Foreign exchange gain/loss, net of RUB 857 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS compared to the consolidated statement of operations under U.S. GAAP.

Table of Contents*J Classification of liabilities*

As of January 1, 2014, we were not in compliance with certain covenants under various credit facilities entered into with several lenders, including certain financial ratios, such as an EBITDA to Net Interest Expense and a Net Debt to EBITDA ratios. In April-May 2014, the lenders provided their consent to waive all breaches. According to U.S. GAAP requirements, when breach of covenants exists at the end of reporting period and lender agrees after the reporting period and before authorization of the financial statements for the issue not to demand the repayment, long-term credit facilities can be classified as non-current. In accordance with IFRS, such credit facilities shall be presented as current at the reporting date, unless waivers were received from lenders before the reporting date. As we received consent from the lenders after the reporting date, all corresponding liabilities are presented by us as current as of January 1, 2014. These liabilities included loans and borrowings for which covenants were breached, and also finance leases and other payables under contracts with cross-default clauses linked to those loans. The effect of this difference was as follows as of January 1, 2014:

Non-current interest-bearing loans and borrowings in the amount of RUB 220,884 million were reclassified to current;

Non-current finance lease liabilities in the amount of RUB 6,744 million were reclassified to current;

Accounts payable under contracts with breached cross-default provisions in the amount of RUB 7,329 million were reclassified to current from non-current liabilities as of January 1, 2014; and

As non-current payables were discounted in the U.S. GAAP consolidated financial statements, additional effect of unwinding the discount was recognized by us in the IFRS financial statements, with an increase of RUB 2,017 million recognized in Trade and other payables line and decrease in Finance costs for the year ended December 31, 2014 in the amount of RUB 2,241 million.

K Deferred taxes

Deferred tax assets and liabilities are treated as non-current under IFRS. Netting is performed for deferred tax assets and liabilities relating to income taxes levied by the same taxation authority on the same taxable entity where we have a legally enforceable right to set off current tax assets against current tax liabilities. Under U.S. GAAP, the deferred tax balances were calculated by applying the currently enacted statutory tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse. Deferred tax assets in the amount of RUB 5,132 million as of December 31, 2014 (January 1, 2014: RUB 1,144 million) and deferred tax liabilities in the amount of RUB 444 million as of December 31, 2014 (January 1, 2014: RUB 1,236 million) were recognized as current under U.S. GAAP. Under IFRS, deferred taxes have been recalculated based on the IFRS net book values of assets and liabilities and are presented as non-current. Deferred tax assets and deferred tax liabilities were offset in the amounts of RUB 7,799 million as of December 31, 2014 (RUB 793 million as of January 1, 2014).

The main differences in deferred tax amounts calculated under IFRS and deferred tax amounts calculated under U.S. GAAP were due to the following:

Decrease in deferred tax liabilities of RUB 18,556 million related to impairment of Bluestone companies recognized in the IFRS financial statements as of January 1, 2014 (refer to note E Impairment of non-current assets and goodwill above);

Decrease in deferred tax liabilities of RUB 266 million as of January 1, 2014 and RUB 236 million as of December 31, 2014, due to changes in rehabilitation provision (refer to note C Rehabilitation provision expenses above);

Increase in deferred tax liabilities of RUB 437 million and RUB 163 million related to differences in the carrying values of property, plant and equipment and mineral licenses (refer to note F Negative goodwill above); and

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Changes in debt issuance costs under IFRS and U.S. GAAP (refer to note A – Debt issuance costs above) resulted in difference between U.S. GAAP and IFRS deferred taxes of RUB 208 million as of December 31, 2014.

The aggregate decrease in deferred tax benefit of RUB 361 million for the year ended December 31, 2014 is the result of all adjustments described in the notes A-L and N.

L Retained earnings and Non-controlling interest

Adjustments and remeasurements made by us as of January 1, 2014 in order to comply with IFRS requirements resulted in the increase in Accumulated deficit by RUB 52,781 million. This also had effect on net assets of subsidiaries and respective non-controlling interests.

M The consolidated statement of cash flows

M1 Under IFRS, Finance income is reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M2 Under IFRS, Finance costs are reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M3 Under IFRS, Interest received is reflected as a separate item within Changes in working capital.

M4 Under IFRS, Interest paid is reflected as a separate item within Changes in working capital.

M5 Under IFRS, Income taxes paid are reflected as a separate item within Changes in working capital.

M6 Under IFRS, Interest paid, capitalized is presented as a separate item. Under U.S. GAAP, it was reflected within Purchases of property, plant and equipment.

M7 Under IFRS, overdrafts are accounted for as cash equivalents. Under U.S. GAAP, cash flows from overdrafts were included in cash flows from financing activity on a net basis.

N Former related parties

Under U.S. GAAP (ASC 810 Consolidation), we determined certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders (the **former Estar metallurgical plants**) as Variable Interest Entities (VIEs). We are not the primary beneficiary of the former Estar metallurgical plants, and the former Estar metallurgical plants were defined as related parties in previously issued U.S. GAAP consolidated financial statements as of December 31, 2014 and January 1, 2014. While under IFRS 12 Disclosure of Interests in Other Entities, an interest in an unconsolidated structured entity as defined by held by a reporting entity does not make the structured entity a related party to the reporting entity unless it would otherwise meet the definition of a related party (e.g. because the structured entity is an associate of the reporting entity). Accordingly, in the accompanying consolidated financial statements, the former Estar metallurgical plants are recognized as third parties. The main effects of this difference were as follows:

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As of January 1, 2014, this difference affected Trade and other receivables (increase of RUB 1,138 million), Amounts due from related parties, net of allowance (decrease of RUB 1,574 million), Other current assets (increase of RUB 436 million), Trade and other payables (increase of RUB 2,476 million) and Amounts due to related parties (decrease of RUB 2,476 million);

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As of December 31, 2014, this difference affected Trade and other receivables (increase of RUB 379 million), Amounts due from related parties, net of allowance (decrease of RUB 379 million), Trade and other payables (increase of RUB 828 million) and Amounts due to related parties (decrease of RUB 828 million);

This difference affected Allowance for doubtful accounts (increase of RUB 1,696 million) and Provision for amounts due from related parties (decrease of RUB 1,696 million) for the year ended December 31, 2014. Other adjustments made by us to the U.S. GAAP amounts in order to meet IFRS requirements, which are not described above were insignificant.

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Reconciliation of equity as of January 1, 2014 (date of transition to IFRS):

	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽¹⁾	U.S. GAAP classified as discontinued operations	Changes in presentation	Adjustments and reclassifications / measurements	IFRS
Assets							
Current Assets							
Cash and cash equivalents		272,936	8,927	52			8,979
	N,						
Trade and other receivables	CP(1)	587,999	19,242	177	1,920	1,138	22,477
	N,						
Due from related parties, net of allowance	CP(12)	56,792	1,859		(71)	(1,592)	196
U.S. GAAP Deferred income taxes	K	25,092	821	323		(1,144)	
Inventories	F, H	1,407,868	46,044	177		408	46,629
Income tax receivables	CP(2)				2,936		2,936
Other current financial assets	CP(3)				360		360
	A, N,						
	CP(1)-(3),						
Other current assets	CP(12)	439,624	14,327	94	(5,839)	(1,357)	7,225
U.S. GAAP Current assets of discontinued operations	G	25,159	823	(823)			
Total current assets		2,815,470	92,043		(694)	(2,547)	88,802
Non-current assets							
Property, plant and equipment	C, E, F	6,726,116	220,107	4,772		1,374	226,253
Mineral licenses	E, F	1,293,470	42,334	64,724		(55,331)	51,727
Non-current financial assets	CP(14)	14,787	484		59		543
Investment in associates		7,604	249			2	251
Deferred tax assets	K	5,066	166			351	517
Goodwill		687,763	22,510			10	22,520
Other non-current assets	A, CP(14)	127,861	4,184	1,080	(59)	(2,724)	2,481
U.S. GAAP Non-current assets of	G	2,156,373	70,576	(70,576)			

discontinued operations

Total non-current assets	11,019,040	360,610		(56,318)	304,292
Total assets	13,834,510	452,653	(694)	(58,865)	393,094

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽¹⁾	U.S. GAAP component classified as discontinued operations	Changes in representations	Adjustments and remeasurements / reclassifications	IFRS
Equity and liabilities							
Current liabilities							
Interest-bearing loans and borrowings	A, J, CP(4) J, N, CP(7), CP(8), CP(9),	1,478,154	48,297	221	2,051	216,509	267,078
Trade and other payables	CP(15)	929,375	30,393	956	8,757	11,867	51,973
Advances received	CP(12)	140,919	4,566		(302)	25	4,289
Due to related parties	N C, CP(6), CP(10),	106,943	3,500			(2,476)	1,024
Provisions	CP(15)	2,001	65	213	1,213	40	1,531
Pension obligations	D	18,578	607	59		211	877
Finance lease liabilities	J	122,754	4,018	2		6,789	10,809
Income tax payable	CP(11) CP(6), CP(11),	78,332	2,560		594	19	3,173
Tax payable other than income tax	CP(12)	264,861	8,672	440	(1,672)		7,440
U.S. GAAP Dividends payable	CP(8)	3,293	108		(108)		
U.S. GAAP Deferred income taxes	K CP(4), CP(7), CP(9),	37,775	1,236			(1,236)	
U.S. GAAP Accrued expenses and other current liabilities	CP(10)	343,457	11,241		(11,227)	(14)	
U.S. GAAP Current liabilities of discontinued operations	G	57,781	1,891	(1,891)			
Other current liabilities						29	29

Total current liabilities	3,584,223	117,154	(694)	231,764	348,224
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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽¹⁾	U.S. GAAP classified as discontinued operations	U.S. GAAP classified as discontinued operations Changes in presentation measurements	Adjustments and reclassifications / measurements	IFRS
Non-current liabilities							
Interest-bearing loans and borrowings	A, J	7,513,277	245,904	227		(220,880)	25,251
Provisions	C	50,567	1,655	215		2,433	4,303
Pension obligations	D	104,525	3,412	1,552		(61)	4,903
Finance lease liabilities	J	296,875	9,717			(6,744)	2,973
Deferred tax liabilities	K	506,241	16,569	18,871		(17,965)	17,475
Other non-current liabilities	J	293,370	9,601	1,181		(7,330)	3,452
U.S. GAAP Long-term liabilities of discontinued operations	G	673,591	22,046	(22,046)			
Due to related parties		21	1			(1)	
Total non-current liabilities		9,438,467	308,905			(250,547)	58,358
Total liabilities		13,022,690	426,059		(694)	(18,783)	406,582
Equity							
Common shares		133,507	4,163				4,163
Preferred shares		25,314	833				833
Additional paid-in capital		834,118	25,591				25,591
Accumulated other comprehensive income (loss)	B, D	(47,601)	(12,844)			12,833	(11)
Accumulated deficit	B, D, L	(427,863)	(783)			(52,781)	(53,564)
Equity attributable to equity shareholders of Mechel PAO		517,475	16,960			(39,948)	(22,988)
Non-controlling interests	L	294,345	9,634			(134)	9,500
Total equity		811,820	26,594			(40,082)	(13,488)
Total equity and liabilities		13,834,510	452,653		(694)	(58,865)	393,094

(1) At exchange rates from the U.S. dollar to the Russian ruble as of January 1, 2014. The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at comparative U.S. GAAP amounts in Russian rubles.

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Reconciliation of equity as of December 31, 2014:

	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽¹⁾	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Assets						
Current Assets						
Cash and cash equivalents		70,800	3,983			3,983
Trade and other receivables	N, CP(1)	330,371	18,586	932	291	19,809
Due from related parties, net of allowance	N	9,303	523		(385)	138
U.S. GAAP Deferred income taxes	K	91,223	5,132		(5,132)	
Inventories	F, H	640,671	36,043		294	36,337
Income tax receivables	CP(2)			578		578
Other current financial assets	CP(3)			186		186
Other current assets	A, CP(1)-(3), CP(12)	238,314	13,407	(1,918)	(2,739)	8,750
U.S. GAAP Current assets of discontinued operations	C, G	151,602	8,529		(8,529)	
Total current assets		1,532,284	86,203	(222)	(16,200)	69,781
Assets of disposal group classified as held for sale	C, G				8,696	8,696
Non-current assets						
Property, plant and equipment	C, F, I	3,944,427	221,266		3,033	224,299
Mineral licenses	F	719,951	40,503		(381)	40,122
Non-current financial assets	CP(14)	4,060	216	273		489
Investments in associates	CP(14)	6,142	346	(72)		274
Deferred tax assets	K	72,966	4,105		(2,667)	1,438
Goodwill		403,207	22,684		13	22,697
Other non-current assets	A, CP(14)	30,453	1,713	(201)	(50)	1,462
Total non-current assets		5,181,206	290,833		(52)	290,781
Total assets		6,713,490	377,036	(222)	(7,556)	369,258

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽¹⁾	Changes in the presentation	Adjustments and reclassifications /	IFRS
Equity and liabilities						
Current liabilities						
Interest-bearing loans and borrowings	A, CP(4), N, CP(7), CP(8), CP(9),	6,678,549	375,725	14,615	(3,821)	386,518
Trade and other payables	CP(15)	537,004	30,211	30,476	806	61,493
Advances received	CP(12)	81,599	4,591	(292)	(15)	4,284
Due to related parties	N	15,494	872		(828)	44
Provisions	C, CP(6), CP(10)	3,478	196	1,928	6	2,130
Pension obligations	D	18,656	1,050		22	1,072
Finance lease liabilities		270,980	15,245		(32)	15,213
Income tax payable	CP(11), CP(6), CP(11),	31,444	1,769	1,272	(8)	3,033
Tax payable other than income tax	CP(12)	215,251	12,110	(2,489)	26	9,647
U.S. GAAP Dividends payable	CP(8)	1,843	104	(104)		
U.S. GAAP Deferred income taxes	K	7,893	444		(444)	
U.S. GAAP Accrued expenses and other current liabilities	CP(10)	811,345	45,645	(45,628)	(17)	
U.S. GAAP Current liabilities of discontinued operations	C, G	150,033	8,441		(8,441)	
Other current liabilities					36	36

Total current liabilities		8,823,569	496,403	(222)	(12,709)	483,472
Liabilities of disposal group classified as held for sale	C, G				8,607	8,607

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		U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽¹⁾	Changes in the presentation remeasurements	Adjustments and reclassifications /	IFRS
	Notes					
Non-current liabilities						
Interest-bearing loans and borrowings	A	166,532	9,369		(23)	9,346
Provisions	C	43,712	2,459		539	2,998
Pension obligations	D	60,222	3,388		57	3,445
Finance lease liabilities		2,813	158		(12)	146
Deferred tax liabilities	K	179,987	10,126		(7,073)	3,053
Other non-current liabilities	CP(11)	81,288	4,557	(3,447)	45	1,155
Due to related parties	G	38	2		(2)	
Income tax payable	CP(11)			3,447		3,447
Total non-current liabilities		534,592	30,059		(6,467)	23,592
Total liabilities		9,358,161	526,462	(222)	(10,569)	515,671
Equity						
Common shares		133,507	4,163			4,163
Preferred shares		25,314	833			833
Additional paid-in capital		834,136	25,591		1	25,592
Accumulated other comprehensive income (loss)	B, D, E	972,381	17,162		(16,144)	1,018
Accumulated deficit	B, D, E, L	(4,763,413)	(205,805)		19,533	(186,272)
Equity attributable to equity shareholders of Mechel PAO		(2,798,075)	(158,056)		3,390	(154,666)
Non-controlling interests	L	153,404	8,630		(377)	8,253
Total equity		(2,644,671)	(149,426)		3,013	(146,413)
Total equity and liabilities		6,713,490	377,036	(222)	(7,556)	369,258

(1) At exchange rate of 56.2584 as of December 31, 2014. The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at comparative U.S. GAAP amounts in Russian rubles.

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Reconciliation of consolidated statements of profit (loss) and comprehensive income (loss) for the year ended December 31, 2014:

	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles) ⁽⁴⁾	Changes in the presentation	Adjustments and reclassifications /	IFRS
Continuing operations						
Revenue	G	6,405,767	243,893		99	243,992
Cost of goods sold	G, F, H	(4,031,657)	(152,546)		(511)	(153,057)
Gross profit		2,374,110	91,347		(412)	90,935
Selling and distribution expenses		(1,460,641)	(55,599)		(62)	(55,661)
Loss on write-off of property, plant and equipment		(17,395)	(661)			(661)
Impairment of goodwill and other non-current assets	E, F	(120,237)	(6,764)		(1,232)	(7,996)
Allowance for doubtful accounts	G, N	(37,968)	(1,459)		(2,212)	(3,671)
Taxes other than income taxes		(172,447)	(6,442)		(27)	(6,469)
Allowance for amounts due from related parties	N	(41,425)	(1,823)		1,697	(126)
Administrative and other operating expenses	C, F, D, CP(13)	(392,606)	(14,946)	(851)	(518)	(16,315)
Other operating income	CP(13)			851		851
U.S. GAAP Accretion expenses	C	(4,963)	(191)	191		
Total selling, distribution and operating expenses, net		(2,247,682)	(87,885)	191	(2,354)	(90,048)
Operating profit (loss)		126,428	3,462	191	(2,766)	887
Finance income		2,398	88		19	107
Finance costs	C, J, I	(793,228)	(30,532)	(191)	2,613	(28,110)
Foreign exchange gain/loss, net	A, I	(2,396,123)	(105,129)		1,953	(103,176)
Share of profit of associates		276	10		(3)	7
Other income	CP(16)			684		684
Other expenses	CP(16)	(9,613)	(796)	(684)	(6)	(1,486)
Total other income and (expense), net		(3,196,290)	(136,359)	(191)	4,576	(131,974)
Loss before tax from continuing operations		(3,069,862)	(132,897)		1,810	(131,087)
Income tax benefit	K	183,908	9,187		(365)	8,822
		(2,885,954)	(123,710)		1,445	(122,265)

**Loss for the year from
continuing operations**

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		U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)	Changes in the Presentation /	Adjustments and reclassifications in measurements	IFRS
Discontinued operations						
Loss after tax for the year from discontinued operations, net	G, E	(1,473,780)	(82,231)		70,529	(11,702)
Loss for the year		(4,359,734)	(205,941)		71,974	(133,967)
Attributable to:						
Equity holders of the parent		(4,335,426)	(205,007)		72,303	(132,704)
Non-controlling interests	L	(24,308)	(934)		(329)	(1,263)
U.S. GAAP Less: Dividends on preferred shares		(124)	(7)			(7)
U.S. GAAP Net (loss) income attributable to common shares of Mechel PAO		(4,335,550)	(205,014)		72,303	(132,711)
Other comprehensive income (loss)						
Other comprehensive income to be reclassified to profit or loss in subsequent periods	E	925,222	30,306		(29,136)	1,170
Exchange differences on translation of foreign operations		923,929	30,304		(29,136)	1,168
Exchange differences on translation of disposal of subsidiaries						
Net gain on available for sale financial assets		1,293	2			2
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		(21,889)	(302)		175	(127)
Remeasurement losses on defined benefit plans	D	(21,889)	(302)		175	(127)
Other comprehensive income for the year, net of tax		903,333	30,004		(28,961)	1,043
Total comprehensive loss for the year, net of tax		(3,456,401)	(175,937)		43,013	(132,924)
Attributable to:						
Equity holders of the parent		(3,432,093)	(175,003)		43,328	(131,675)
Non-controlling interests		(24,308)	(934)		(315)	(1,249)

(1)

The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using the exchange rates which were previously applied in U.S. GAAP to translate operations from the functional currency to the U.S. dollar.

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Reconciliation of consolidated statement of cash flows for the year ended December 31, 2014:

	Notes	U.S. GAAP (In thousands of U.S. dollars) ⁽¹⁾	U.S. GAAP (In millions of Russian rubles)	Adjustments and reclassifications / remeasurements	IFRS
Cash Flows from Operating Activities					
Net loss ⁽²⁾		(4,359,734)	(205,941)	71,974	(133,967)
Profit (loss) from discontinuing operations, net of income tax		1,473,780	82,231	(70,529)	11,702
Net loss from continuing operations		(2,885,954)	(123,710)	1,445	(122,265)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:					
Finance income	M1			(107)	(107)
Finance costs	M2			28,110	28,110
Other adjustments		2,739,002	118,978	(1,445)	117,533
Changes in working capital items:					
Interest received	M3			22	22
Interest paid	M4			(14,963)	(14,963)
Income taxes paid	M5			(2,509)	(2,509)
Other operating cash flows		891,579	32,804	(10,553)	22,251
Net cash provided by operating activities		744,627	28,072		28,072
Cash Flows from Investing Activities					
Purchases of property, plant and equipment	M6	(443,668)	(16,506)	5,141	(11,365)
Interest paid, capitalized	M6			(5,141)	(5,141)
Other investing cash flows		(28,628)	(1,233)		(1,233)
Net cash used in investing activities		(472,296)	(17,739)		(17,739)
Cash Flows from Financing Activities					
Proceeds from borrowings		1,815,966	64,469		64,469
Repayment of borrowings	M7	(2,185,343)	(78,030)	269	(77,761)
Other financing cash flows		(69,112)	(2,728)		(2,728)
Net cash used in financing activities		(438,489)	(16,289)	269	(16,020)
Effect of exchange rate changes on cash and cash equivalents					
		(35,965)	1,051	(150)	901
Net decrease in cash and cash equivalents		(202,123)	(4,905)	119	(4,786)
	M7	274,539	8,979	(2,849)	6,130

Cash and cash equivalents at beginning of period					
Cash and cash equivalents at end of period	M7	72,416	4,074	(2,730)	1,344

- (1) The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using the exchange rates which were previously applied in U.S. GAAP to translate operations from the functional currency to the U.S. dollar.
- (2) See notes to reconciliation of statements of profit (loss) and other comprehensive income (loss) above.

Trend Information

Demand

Mining. The demand for coking coal is dependent on the steel industry, which is directly tied to global economic cycles. In 2014, China's coking coal imports fell by 13 million tonnes due to growing usage of

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domestic material and a slowdown in demand, according to Platts. As a result, global metallurgical coal imports stagnated with a slight decrease of 0.2% in 2014, according to CRU. In 2015, total global metallurgical coal imports fell by 5.9% as China continued its policy to decrease coal imports to support domestic producers. As a result of such policy, imports of metallurgical coal in China fell by 20 million tonnes in 2015, according to CRU.

The steam coal market is driven by non-steel related factors, such as growth in electricity consumption, balance between supply and demand and seasonality. In 2015, total global seaborne steam coal imports dropped by 9.2% compared to 2014 driven by drastic fall in China import volumes, according to CRU.

According to the Department of Industry, Innovation and Science of Australian Government, in 2014, global iron ore trade increased by 11% due to world pig iron production growth and higher proportion of imported iron ore in Chinese consumption. Global iron ore trade is estimated to have increased by 1.8% in 2015, the lowest rate of growth since 2001, according to the Department of Industry, Innovation and Science of Australian Government. The main reason of such growth slowdown was decreased steel production in China.

Steel. Russia is our largest market for steel products. In 2014, Russian rolled steel consumption reached a level of 45.5 million tonnes, according to Metal Expert. In 2015, Russian rolled steel consumption declined by 8.7% and amounted to 41.5 million tonnes, according to Metal Expert.

In 2014, exports of steel products increased by 5.2% and reached 24.9 million tonnes as a result of the ruble devaluation, according to Metal Expert. In 2015, the volume of steel products exports from Russia grew by 8.4% and amounted to 27.0 million tonnes due to the growth in the exchange rate, according to Metal Expert.

In 2014, imports of steel declined by 20.5% and amounted to 5.5 million tonnes, according to Metal Expert. In 2015, imports of steel decreased significantly by 27.3% and amounted to 4.0 million tonnes, according to Metal Expert. The decline was due to the ruble devaluation and growth in supplies of domestic producers.

Power. In 2015, the electricity output of our generating facilities increased by 12% as compared to 2014. Heat energy generated for sale decreased by 7%.

The reduction in market demand for electricity energy has resulted in the need to adjust undertakings and completion schedules with respect to power industry companies' investment programs. Currently the Russian government is analyzing the progress made on these programs, particularly in light of the current economic downturn, in an effort to clarify the timeline for installation of the necessary production capacities. It is expected that these decisions will result in a new long-term agreement with the Russian government regarding the regulatory scheme of the regulated capacity market which will determine the profitability of this market.

Sales

Mining. In 2016, we expect sales volumes of our mining segment to remain at the level of 2015 with an increase in the share of exports due to the increasing volumes of production at the Elga coal deposit. We believe that our policy of concluding long-term contracts for coal sales will strengthen our relationships with our customers and will give us long-term presence in both the domestic and export markets.

Steel. Our steel segment sales volumes are expected to increase in 2016 due to the increased production at the universal rolling mill resulting in an increase of structural shapes and rails sales. In addition, we believe that our strategy aimed at increasing the efficiency of the existing distribution network in conjunction with direct sales from our plants to the largest customers will allow us to strengthen our leading position in the market, to provide us with

greater stability in steel sales and to improve our cash flow in the current economic slowdown.

Power. In 2016, we expect sales volumes of our power segment to remain at 2015 levels. We do not expect that consumption by small and mid-sized businesses and households, which are also customers of power and

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heat-supply companies, will change significantly. We plan to expand our distribution channels to build a new customer base among small and mid-sized businesses, as well as public utilities. We also plan to optimize our production capacity through further integration of our intra-group assets. We hope that further integration of our power assets, as well as diversification of our customer portfolio will allow us to avoid a fall in power segment sales caused by a decrease in demand from large industrial companies that are shifting their business from power supply companies.

Inventory

Overall, our inventory decreased by RUB 1,148 million, or 3.1%, to RUB 35,189 million as of December 31, 2015 from RUB 36,337 million as of December 31, 2014, due to the decrease in finished goods production costs, which was due to the decrease in raw materials costs as well as the decrease in production volumes in the steel segment as a result of the decline in steel products demand.

Costs

Mining. Within our mining segment, we expect our iron ore cash costs per tonne to increase in 2016 as a result of increasing prices of power, explosives, automotive tires and tubes for open pit equipment and land use fees, while coal cash costs per tonne should remain relatively stable in 2016 as a result of increasing operational efficiency and decreasing semi-fixed costs.

Steel. Excluding the effects of imposition of international sanctions against Russia and exchange rate fluctuations, our steel cash costs per tonne should remain relatively stable in 2016 as a result of achieving cost savings, as well as efficiency and output gains arising as a result of our targeted capital investment program. Specifically, as we continue to introduce operational and technical changes at our plants allowing us to better integrate their products, we expect to be better able to control our costs.

Power. We expect that in 2016 the cost of the production of electricity and heat energy will increase due to an increase in the prices of key raw materials, particularly natural gas, as well as some ancillary materials. We intend to maintain strict control over costs, which should enable us to cut expenditures by reducing fixed production costs, optimizing administrative expenses and increasing productivity to satisfy increased market demand in some regions.

Seasonality

Seasonal effects have a relatively limited impact on our results. Nevertheless, a slowing of demand and, thus, a reduction in sales volumes (and a related increase in inventories) is typically evident in the first and fourth quarters of the financial year as a result of the general reduction in economic activity associated with the New Year holiday period in Russia and elsewhere. We maintain increased stockpiles of scrap during the winter months in order to avoid potential supply disruptions due to inclement weather. We are dependent on the Russian construction market, which also experiences slowdowns in the winter months. Our mining segment revenues generally have the same seasonality as the steel segment since coking coal and iron ore are primarily used in the manufacture of steel and are closely linked to steel consumption. By contrast, our power segment sales volumes are generally higher in the first and the fourth quarters of the year, due to increased electricity and steam consumption in the winter period.

Consumption of combustive, lubricative and energy supplies during the winter months is generally higher than during the rest of the year. In addition, railroad carriers demand that iron ore concentrate be fully dried and coal concentrate be partially dried for transportation during the winter months, resulting in higher costs during that time.

Table of Contents**Item 6. Directors, Senior Management and Employees****Directors and Executive Officers*****Board of Directors***

All of our current directors were elected at an extraordinary general shareholders meeting which took place on March 4, 2016, and their terms expire on the date of our annual general shareholders meeting, which will take place not later than June 30, 2016. The business and mailing address for all our directors and executive officers is Krasnoarmeyskaya Street 1, Moscow 125167, Russian Federation.

Name	Year of Birth	Position
Igor V. Zyuzin	1960	Chairman, Chief Executive Officer of Mechel Mining
Oleg V. Korzhov ⁽⁴⁾	1970	Director, Chief Executive Officer, Chairman of Management Board
Tigran G. Khachaturov ⁽⁴⁾	1979	Director, Adviser to Chief Executive Officer for Finance
Alexey G. Ivanushkin ⁽⁴⁾	1962	Director, Member of Management Board
Alexander N. Kotsky ⁽¹⁾⁽²⁾⁽⁴⁾	1957	Director
Alexander D. Orishchin ⁽¹⁾⁽³⁾⁽⁴⁾	1932	Director
Vladimir V. Gusev ⁽¹⁾⁽²⁾⁽³⁾	1945	Director
Yuriy N. Malyshev ⁽¹⁾⁽³⁾⁽⁴⁾	1939	Director
Vladimir Yu. Korovkin ⁽¹⁾⁽²⁾⁽³⁾	1960	Director

(1) Independent Director under the applicable NYSE regulations and Russian regulations.

(2) Member of the Audit Committee of the Board of Directors.

(3) Member of the Committee on Appointments and Remuneration.

(4) Member of the Committee on Investments and Strategic Planning.

Igor V. Zyuzin has been Chairman of our Board of Directors since July 2010. He was our Chief Executive Officer from December 2006 to June 2010 and Chairman of our Management Board from September 2007 to June 2010. He served as Chairman of our Board of Directors from March 2003, when Mechel was founded, to December 2006 and has been a member of our Board of Directors since that time. Mr. Zyuzin has been a member of the Board of Directors of Mechel Mining since April 2008 and Chief Executive Officer of Mechel Mining since July 2011. Mr. Zyuzin has also served as Chairman of the Board of Directors of Southern Kuzbass Coal Company since May 1999 and has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since 2001 and a member of the Board of Directors of Yakutugol since October 2007. He has served as Chairman of the Board of Directors of Yakutugol since June 2013. From July 2011 to April 2014, he was Chairman of the Management Board of Mechel Mining. From April 2008 to June 2011, Mr. Zyuzin served as Chairman of the Board of Directors of Mechel Mining. Mr. Zyuzin has over 29 years of experience in the coal mining industry. Mr. Zyuzin has a degree in technology and complex mechanization of underground mining from the Tula Polytechnic Institute. Mr. Zyuzin also has a degree in mining engineering economics and a Ph.D. in technical sciences in the coal mining field. Mr. Zyuzin may be deemed to be the beneficial owner of approximately 36.34% of our common shares. See Item 7. Major Shareholders and Related Party Transactions.

Oleg V. Korzhov has been a member of our Board of Directors since June 2014. Mr. Korzhov has been our Chief Executive Officer and Chairman of our Management Board since January 2014. He was our Senior Vice President for

Economics and Management from February 2012 to December 2013. He has been a member of our Management Board since March 2009. Mr. Korzhov was our Senior Vice President for Business Planning and Analysis from November 2011 to February 2012, and our Vice President for Business Planning and Analysis from April 2009 to October 2011. Mr. Korzhov has been a member of the Board of Directors of Mechel Mining since June 2011 and Chairman of the Board of Directors of Mechel Mining since June 2014. He was a member of the Board of Directors of Port Posiet from May 2008 to June 2014, Beloretsk Metallurgical Plant and Mecheltrans from 2010 to 2014, Southern Kuzbass Power Plant from 2009 to 2014, Kuzbass Power Sales Company from 2010 to 2014, Chelyabinsk Metallurgical Plant from 2009 to 2011 and from June 2014 to

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June 2015, as well as Vyartsilya Metal Products Plant from 2008 to 2010. From July 2008 to April 2009, he was Deputy Chief Executive Officer for Economics and Finance of Mechel-Steel Management. From September 2005 to January 2006, he served as Economic Planning Director of Mechel and from February 2006 to July 2008 he held the same position at Mechel-Steel Management. From 2003 to 2005, Mr. Korzhov was Director for Finance and Economics of EvrazHolding OOO. From 1998 to 2003, he was Deputy Director for Economic Analysis and Pricing and then Director for Economics of Nizhny Tagil Iron and Steel Works OAO. Mr. Korzhov has a degree in economics and management in metallurgy from the Urals Polytechnic Institute and a degree in general management from the Academy of National Economy under the Government of the Russian Federation. Mr. Korzhov also has a Ph.D. in economics.

Tigran G. Khachaturov has been a member of our Board of Directors since March 2016. He has been an Adviser to our Chief Executive Officer for Finance since February 2015. From July to December 2014, he was an Adviser to Director of Atomenergoprom JSC. From June 2013 to July 2014, he served as First Executive Vice President, as well as Head of Moscow representative office of Uranium One Holding N.V. From August 2007 to May 2013, Mr. Khachaturov was First Deputy General Director and Acting General Director at Atomredmetzoloto OAO. From April 2002 to August 2007, he held various positions at Techsnabexport OJSC, including First Deputy General Director since July 2004. Mr. Khachaturov has a degree in finance and credit from the Plekhanov Russian Academy of Economics.

Alexey G. Ivanushkin has been a member of our Board of Directors since June 2013 and a member of our Management Board since August 2014. He served as our Chief Operating Officer – First Deputy Chief Executive Officer from August 2014 to March 2016. He was Chief Executive Officer of Oriel Resources Ltd. from April 2009 to March 2016. He has been a member of the Board of Directors of Oriel Resources Ltd. since October 2008 and a member of the Board of Directors of Southern Urals Nickel Plant since May 2009. He served as Chairman of the Board of Directors of Southern Urals Nickel Plant from May 2010 to March 2016. He was a member of our Board of Directors from March 2003 to July 2009, and served as our Chief Operating Officer from January 2004 to February 2009. Mr. Ivanushkin held the position of our Chief Executive Officer from March 2003 to January 2004. Mr. Ivanushkin served as Chairman of the Board of Directors of Chelyabinsk Metallurgical Plant from June 2002 to June 2009. From June to October 2004, he was Chief Executive Officer of Southern Kuzbass Coal Company. From December 1999 to April 2002, Mr. Ivanushkin served as Chief Executive Officer of Chelyabinsk Metallurgical Plant. From 1993 to November 1999, he was Director of the Department of Ferrous Metals and Ferroalloys in the Moscow office of Glencore International. Mr. Ivanushkin has a degree in economics and international relations from the Moscow State University of International Relations (MGIMO).

Alexander N. Kotsky has been a member of our Board of Directors since March 2016. He has also been a member of the Board of Directors of Port Vanino since June 2015. From 2008 to 2014, he was a member of the Board of Directors of Southern Kuzbass Coal Company. Mr. Kotsky has a degree in railway engineering from the Novosibirsk Institute of Railway Engineers.

Alexander D. Orishchin has been a member of our Board of Directors since March 2016. He was a member of the Board of Directors of Mechel Mining from June 2010 to June 2014. Mr. Orishchin has a degree in mining from the Tomsk Polytechnic Institute. He also holds a Ph.D. in technical sciences from the Moscow Mining Institute.

Vladimir V. Gusev has been a member of our Board of Directors since July 2009. In 2008, Mr. Gusev held the position of Vice President for Finance of the State Corporation Olympstroy. From 2005 to 2008, he was Deputy Head of the Federal Tax Service of the Russian Federation. From 1999 to 2005, he was First Deputy Minister of Taxes and Levies of the Russian Federation. Mr. Gusev has a law degree from the Leningrad State University. He also has a Ph.D. in economics and is an associate professor. He was awarded several national awards, including in 2000, by the Decree of

the President of the Russian Federation, the title of Honored Economist of the Russian Federation. Mr. Gusev has authored more than 30 scientific papers and publications.

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Yuriy N. Malyshev has been a member of our Board of Directors since June 2013. Mr. Malyshev is currently Director of the State Geological Museum of V.I. Vernadsky. He has been President of the Academy of Mining Sciences of Russia since 1993. Mr. Malyshev also serves as Chairman of the Board of Directors of OShK Soyuzspetsstroy ZAO. He has been a member of the Board of Directors of JSC Acron since May 2015. From 1999 to 2013, he was President of the Non-profit Partnership Russian Mining Operators. Mr. Malyshev has almost 50 years of experience in various executive positions in the coal mining industry. He is a member of the Russian Academy of Sciences and has a D.Sc. in technical sciences. He has the honorary title of Honored Worker of Science and Technology of the Russian Federation. He is the recipient of several prizes and awards, including the order "For Merit to the Motherland" of the third grade, the Order of Honour and all three grades of the "Miner's Glory" order. Mr. Malyshev has a degree in mining from the Kemerovo Mining Institute.

Vladimir Yu. Korovkin has been a member of our Board of Directors since June 2014. From June 2011 to June 2014, he served as Chairman of the Board of Directors of Mechel Mining. Since 1995, Mr. Korovkin has held various positions at Federal Stock Corporation OAO, including President from 1999 to 2004 and Chairman since 2004. From 1982 to 1995, he held various positions at the Institute of World Economy and International Relations of the Russian Academy of Sciences. Mr. Korovkin has a degree in economic geography of foreign countries and a Ph.D. in economics from the Lomonosov Moscow State University.

Executive Officers

Name	Year of Birth	Position
Oleg V. Korzhov	1970	Chief Executive Officer, Director, Chairman of Management Board
Victor A. Trigubko	1956	Senior Vice President – Government Relations, Member of Management Board
Andrey A. Slivchenko	1975	Vice President – Finance, Member of Management Board
Valery A. Sheverdin	1963	Vice President for Corporate Security, Member of Management Board
Minas A. Darbinyan	1983	Deputy Chief Executive Officer for Financial Control, Member of Management Board
Irina N. Ipeeva	1963	Director of Legal Department, Member of Management Board
Natalya O. Trubkina	1964	Human Resources Director, Member of Management Board
Tigran G. Khachaturov	1979	Adviser to Chief Executive Officer for Finance, Director
Pavel V. Shtark	1969	Chief Executive Officer of Mechel Mining Management, Member of Management Board
Andrey A. Ponomarev	1977	Chief Executive Officer of Mechel-Steel Management, Member of Management Board
Petr A. Pashnin	1977	Chief Executive Officer of Mechel Energo
Alexey V. Lebedev	1974	Chief Executive Officer of Mecheltrans Management, Member of Management Board

For brief biographies of Messrs. Korzhov and Khachaturov, see Board of Directors.

Victor A. Trigubko has been our Senior Vice President – Government Relations since August 2006 and a member of our Management Board since February 2016. He was a member of our Board of Directors from June 2012 to March

2016. He served as our Vice President – Government Relations from 2005 to August 2006. From 2003 to 2005, he was our Vice President for Representation in Central and Eastern Europe, Chairman of the Board of Directors of Mechel Campia Turzii S.A. and a member of the Board of Directors of Mechel Targoviste

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S.A. From 2002 to 2003, Mr. Trigubko held the position of Director of Mechel International Holdings AG's representative office in Romania. From 1997 to 2002, he was Head of Izhstal's representative office in Moscow. From 1992 to 1997, he held various executive positions in the metallurgical company Unibros Steel Co. LTD, including Deputy General Director. Mr. Trigubko also worked in the Foreign Relations Department of the USSR State Committee for Labor and Social Issues and in the USSR Trade Representation Office in Romania. Mr. Trigubko has a degree in economics from the Kalinin State University.

Andrey A. Slivchenko has been our Vice President – Finance since May 2014 and a member of our Management Board since August 2014. From April 2014 to May 2014, Mr. Slivchenko was our Director for Finance. He has been a member of the Board of Directors of Southern Kuzbass Coal Company since June 2014. From January 2012 to September 2012, he served as Chief Executive Officer and from November 2011 to January 2012 as Chief Operating Officer of Pharmacy Chain 36.6 OAO. From July 2007 to April 2011, he was Vice President for Corporate Finance at United Aircraft Corporation JSC. From August 2003 to July 2007, Mr. Slivchenko held the position of Director for Corporate Finance at Pharmacy Chain 36.6 OAO. From January 2001 to May 2003, he was Director for Corporate Finance at Ilim Pulp Enterprise ZAO. From August 1997 to February 1999, he held various positions at Yukos Oil Company, including Head of the Financial Markets Department of Yukos-Moskva OOO. Mr. Slivchenko received a bachelor's degree in economics and a master's degree in management from the International University in Moscow.

Valery A. Sheverdin has been our Vice President for Corporate Security since March 2014 and a member of our Management Board since August 2014. From June 2009 to March 2014, Mr. Sheverdin held the positions of our Director of the Department of Safety of Property Complex and Director of the Corporate Security Department. From April 2011 to March 2014, he was Chief Executive Officer of Mechel-Garant OOO. From July 2007 to April 2011, he worked in PSC Mechel-Centre OOO, including as General Director from December 2007. From April 2004 to June 2007, Mr. Sheverdin held various positions in Lukom-A Agency ZAO. From February 2001 to March 2003, he was Chairman of the Belgorod regional office of the Russian Fund of Social Progress. From September 1995 to February 2001, he held various executive positions in security agencies. From November 1981 to August 1995, he served in the Armed Forces of the Russian Federation. Mr. Sheverdin graduated from the Moscow Border Institute of the Federal Security Service of the Russian Federation with a degree in law and the Kolomna Higher Artillery Command College of the October Revolution.

Minas A. Darbinyan has been our Deputy Chief Executive Officer for Financial Control since June 2015 and a member of our Management Board since July 2015. He has been a member of the Board of Directors of Port Posiet since March 2016. From November 2013 to January 2015, he served as Director for Strategic Planning at Uranium One Holding N.V., part of state-owned corporation Rosatom. From April to November 2013, he headed Investment Planning and Development Department at Atomredmetzoloto OAO, also part of Rosatom. From May 2011 to April 2013, Mr. Darbinyan was senior consultant at KPMG ZAO. From 2008 to 2011, he held various positions at MIEL-DPM OOO, including Chief Financial Officer since 2010. From 2006 to 2008, he was an assistant to the Vice President-head of Moscow regional office in Moscow Industrial bank. Mr. Darbinyan has a degree in management from the Academy of National Economy under the Government of the Russian Federation and a degree in economics from the State Academic University for Humanities.

Irina N. Ipeeva has been Director of our Legal Department since April 2009 and a member of our Management Board since September 2007. She has been a member of the Board of Directors of Southern Kuzbass Coal Company since 2007 and a member of the Board of Directors of Mechel Mining since June 2014. From September 2007 to April 2009, she was our General Counsel, Deputy Director of the Legal Department – Director of the Department of Corporate Governance and Property. From 2003 to 2007, Mrs. Ipeeva held the position of General Counsel and Director of the Department of Corporate Governance and Property. From February to July 2006, she was Director of the Department of Corporate Governance and Property of Mechel-Steel Management. From March to June 2003,

Mrs. Ipeeva held the position of Deputy General Director for Property Matters of Uglemet-Trading OOO. From December 2001 to March 2003, she was Head of the Department for Regulation of Corporate Relations and Property of Southern Kuzbass Coal Company

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and, from January to November 2001, she was Head of the Share Capital Department. From August 1988 to January 2001, Mrs. Ipeeva worked at the Kuzbassugleobogashcheniye Industrial Amalgamation and the Tomusinskaya Washing Plant, where she held positions ranging from a legal adviser to head of the legal department. Mrs. Ipeeva has a degree in law from the Kuibyshev State University.

Natalya O. Trubkina has been our Human Resources Director since September 2015 and a member of our Management Board since February 2016. From August 2009 to August 2015, she held the position of Human Resources Director of Mechel-Steel Management. She has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since June 2015. She was a member of the Board of Directors of Urals Stampings Plant from June 2014 to June 2015. In 2009, she served as Human Resources Director in Souzmetallresource Management Company ZAO. From 2004 to 2009, Mrs. Trubkina worked in United Company RUSAL, including as Head of the Human Resources Department of secondary alloys business since 2006. From 2003 to 2004, she was HR manager in Texas Nafta Industries Inc. From 1994 to 2002, she was HR manager in Belpromstroybank OAO. Mrs. Trubkina has a degree in heat and gas supply and ventilation from the Novopolotsk Polytechnic Institute, as well as a diploma of further education in personnel management psychology from the Lomonosov Moscow State University.

Pavel V. Shtark has been Chief Executive Officer of Mechel Mining Management since July 2013 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Moscow Coke and Gas Plant since June 2013, a member of the Board of Directors of Elgaugol since August 2013 and a member of the Board of Directors of Mechel Mining, Southern Kuzbass Coal Company, Korshunov Mining Plant and Yakutugol since June 2014. He was a member of the Management Board of Mechel Mining from July 2013 to April 2014. From October 2012 to July 2013, he held the position of Deputy General Director for Coke and Chemical Products Production Managing Director of Moscow Coke and Gas Plant. From April 2008 to October 2012, Mr. Shtark served as Deputy Director, Director and Managing Director of Mechel Coke. From October 1996 to March 2008, he was Head of the Workshop, Chief Engineer of Coke and Chemical Products Production at Nizhniy Tagil Iron and Steel Works OAO. Mr. Shtark has a degree in equipment and technology of welding production from the Urals State Technical University and a degree in chemical technology of natural energy carriers and carbon materials from the same university.

Andrey A. Ponomarev has been Chief Executive Officer of Mechel-Steel Management since December 2015 and a member of our Management Board since February 2016. From August 2012 to November 2015, he served as First Deputy Chief Executive Officer of Mechel-Steel Management. He has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since 2013. He was a member of the Board of Directors of Vyartsilya Metal Products Plant and Beloretsk Metallurgical Plant from 2013 to 2014, Urals Stampings Plant from 2013 to 2015 and Izhstal from 2014 to 2015. From August 2009 to August 2013, he headed Mechel Service Global. From May 2005 to August 2009, Mr. Ponomarev was Managing Director of Mechel Service. From 2002 to 2005, he held various positions at Uglemet Trading OOO and Mechel Trading House OOO, including Head of Regional Sales Department. From 2000 to 2002, he served as chief of the analysis bureau in Chelyabinsk Metallurgical Plant's marketing and sales service. From 1999 to 2000, he was an engineer in the special steels sales department of Chelyabinsk Metallurgical Plant's marketing and sales service. Mr. Ponomarev has a degree in pressure metal treatment and a degree in finance from the Southern Urals State University.

Petr A. Pashnin has been Chief Executive Officer of Mechel Energo since November 2013. He has been a member of the Board of Directors of Kuzbass Power Sales Company since May 2014 and a member of the Board of Directors of Southern Kuzbass Power Plant since June 2015. He was a member of the Board of Directors of Tomusinsk Energo Management from June 2014 to June 2015. From July to November 2013, he held the position of Technical Director of Mechel Energo. From March 2012 to June 2013, he was Chief Operating Officer of Toplofikatsia Rouse. From September 2011 to February 2012, he served as Head of Energy Efficiency and Energy Audit Department of Mechel

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Energo. From February 2008 to September 2011, he held various positions at the Chelyabinsk branch of Mechel Energo. From July 1999 to January 2008, he worked at

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Chelyabinsk Metallurgical Plant, where he held positions ranging from steam turbine operator to heat and power station chief engineer. Mr. Pashnin has a degree in industrial heat power engineering from the Southern Urals State University.

Alexey V. Lebedev has been Chief Executive Officer of Mecheltrans Management since December 2013 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Mecheltrans since April 2014 and a member of the Board of Directors of Port Kambarka and Port Vanino since June 2014. He was a member of the Board of Directors of Port Posiet from June 2014 to March 2016. He served as Chief Executive Officer of Mecheltrans Auto from February 2011 to December 2013 and Director of Motor Transportation Department of Mecheltrans from June 2010 to January 2011. From 2005 to 2010, Mr. Lebedev was Director of Uraltechstroy NN OOO. From 2004 to 2005, he held the position of Deputy General Director of Region Express TK OOO. From 1998 to 2003, he held various positions at UralPromSnab OOO. From 1993 to 1998, he was Head of Railway Transportation Department of Transfero EAFC OOO. Mr. Lebedev has a degree in industrial management from the Izhevsk State Technical University.

Compensation

Our directors and executive officers were paid an aggregate of approximately \$7.8 million for services in all capacities provided to us during 2015. Our directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

Board of Directors

Members of our Board of Directors are elected by a majority of the voting stock present at our annual general shareholders meeting using a cumulative voting system. Directors are elected to serve until the next annual general shareholders meeting and may be re-elected an unlimited number of times. Our Board of Directors currently consists of nine members, five of whom are independent pursuant to the director independence criteria set forth both in the applicable Russian regulations and NYSE regulations, as well as in the Charter and the Bylaw on the Board of Directors of Mechel PAO. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See Item 10. Additional Information General Meetings of Shareholders for more information regarding the competence of our general shareholders meetings. Some of the members of our Board of Directors, as well as the members of the boards of directors of our subsidiaries, serve pursuant to contracts. These contracts do not provide for any benefits upon termination of their directorship.

Committees of the Board of Directors

Audit Committee

The Audit Committee consists of Vladimir Korovkin, Vladimir Gusev and Alexander Kotsky, each of whom is an Independent Director. Our Audit Committee operates pursuant to a bylaw, which is available at www.mechel.com. The purpose of this Committee is to assist the Board of Directors with its oversight responsibilities regarding:

the quality and integrity of our financial statements;

our compliance with legal and regulatory requirements;

the independent auditor's qualifications and independence; and

the performance of our internal audit function and independent auditor.

Committee on Investments and Strategic Planning

The members of the Committee on Investments and Strategic Planning are Yuriy Malyshev, Alexander Orishchin, Alexey Ivanushkin, Alexander Kotsky, Tigran Khachaturov and Oleg Korzhov. The Committee on

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Investments and Strategic Planning defines our strategic goals and defines our priorities. The Committee makes recommendations to the Board of Directors on our dividend policy and on the adjustments to our strategy as required in order to enhance our efficiency. Our Committee on Investments and Strategic Planning operates pursuant to a bylaw, which is available at www.mechel.com.

The following sub-committees were set up under the Committee on Investments and Strategic Planning:

Sub-committee on metallurgical production strategy, with members Alexey Ivanushkin and Oleg Korzhov;

Sub-committee on mining production strategy, with members Yuriy Malyshev, Alexander Kotsky and Alexander Orishchin; and

Sub-committee on power production strategy, with members Tigran Khachaturov and Alexey Ivanushkin.

Committee on Appointments and Remuneration

The members of the Committee on Appointments and Remuneration are Vladimir Gusev, Vladimir Korovkin, Alexander Orishchin and Yuriy Malyshev, each of whom is an Independent Director. The Committee on Appointments and Remuneration has been established to maintain continuity and high professional standards, as well as to work out a competitive remuneration system, within our group. The Committee prepares recommendations to the Board of Directors on candidates for appointment to the Management Board or as our Chief Executive Officer or other executive officers or senior officers of our subsidiaries. It also prepares appraisals of their performance and makes recommendations regarding their remuneration. The Committee also defines the requirements applicable to nominees to the Board of Directors and informs the shareholders of such nominees. The Committee operates pursuant to a bylaw, which is available at www.mechel.com.

Management Board

In September 2007, we created a Management Board to provide for greater oversight of our operations. For more information, see Item 10. Additional Information Management Board. The members of the Management Board are set out above under Directors and Executive Officers.

Management Companies

We have four management companies within our group which provide management services to the companies within the mining, steel and power segments and to our companies within our transport division.

Mechel Mining Management

Mechel Mining Management was established in July 2008 as a wholly-owned subsidiary of Mechel Mining with the purpose to provide management services to the production subsidiaries within our mining segment. Mechel Mining Management presently performs the functions of the sole executive body of the following companies: Southern Kuzbass Coal Company, Korshunov Mining Plant, Yakutugol, Moscow Coke and Gas Plant, Mechel Coke, Mechel Engineering, Elgaugol and Vzryvprom.

Mechel-Steel Management

Mechel-Steel Management was established in October 2005 as a wholly-owned subsidiary of Mechel with the initial purpose to provide management services to our subsidiaries by performing the functions of their respective management bodies. The company's former name was Mechel Management OOO which was changed in September 2009 in line with the reorganization of our group's management structure. Mechel-Steel

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Management presently provides management services to our subsidiaries within the steel segment by performing the functions of the sole executive body of Chelyabinsk Metallurgical Plant, Urals Stampings Plant, Izhstal and Bratsk Ferroalloy Plant.

Mechel Energo

Mechel Energo was established in May 2001 under the name of Regional Energy Company ENERGOSBYT OOO. In February 2004, we acquired the company with a view to make the strategic and operational management of our power assets more efficient. The name of the company was changed to its current name in April 2004. Mechel Energo performs the functions of the sole executive body of Southern Kuzbass Power Plant in our power segment.

Mecheltrans Management

Mecheltrans Management was established in March 2010 as a wholly-owned subsidiary of Mechel and since July 2010 began to provide management services to the companies within our transport division by performing the functions of the sole executive body of Mecheltrans, Mecheltrans Vostok, Port Posiet, Port Kambarka and Port Temryuk.

Review Commission

The Review Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The members of our Review Commission are nominated and elected by our shareholders to serve until the next annual general shareholders meeting. Our Chief Executive Officer, a member of our Board of Directors and a member of our Management Board may not simultaneously be a member of the Review Commission. Our Review Commission currently has three members: Alexander N. Kapralov, Andrey V. Stepanov and Natalya S. Zykova. The powers and duties of our Review Commission are governed by a bylaw approved by our general shareholders meeting.

Internal Control and Audit Department

The Internal Control and Audit Department's main function is to systematically, consistently and independently from our management assess and improve the efficiency of our group's risk management, internal control, corporate governance and information systems. The activities of the Internal Control and Audit Department are governed by the Bylaw on the Internal Control and Audit Department. Natalya S. Zykova serves as the Director of the Internal Control and Audit Department. The Department is functionally subordinated to the Audit Committee of the Board of Directors, and administrated by our Chief Executive Officer.

Corporate Governance Principles

Our corporate governance principles are based on the Russian Corporate Governance Code recommended by the CBR and supplemented by the obligations of the Board of Directors prescribed by Russian law, our charter and internal rules of procedure. The principles are intended to ensure that we are managed and monitored in a responsible and value-driven manner. They include the protection of shareholders' rights, comprehensive disclosure and transparency requirements and rules governing conflicts of interest. We are committed to continuing to adapt our corporate governance principles to developments in best-practices. Our corporate governance principles are reflected in our corporate documents, such as:

the Charter;

the Bylaw on the Board of Directors;

the Bylaw on the General Meeting of Shareholders;

the Bylaw on the General Director;

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the Bylaw on the Collegial Executive Body (Management Board);

the Bylaw on the Review Commission;

the Bylaw on the Internal Control and Audit Department;

the Code of Business Conduct and Ethics;

the Bylaw on the Prohibition and Prevention of Insider Trading;

the Bylaw on the Disclosure of Information that may Significantly Impact the Market Value of our Shares;

the Bylaw on Information Policy;

the Bylaw on Appointments and Remuneration Committee of the Board of Directors;

the Bylaw on Investments and Strategic Planning Committee of the Board of Directors;

the Bylaw on the Audit Committee of the Board of Directors;

the Code of Corporate Governance; and

the Bylaw on Dividend Policy.

These documents are available at www.mechel.com and www.mechel.ru.

We also comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Such requirements include: (1) the obligation to have at least three independent directors, who shall represent at least one-fifth of the members of the board of directors; (2) the establishment of an audit committee chaired by an independent director and a committee on appointments and remuneration consisting of independent directors, or, if not practicable, of independent directors and members of the board of directors who are not a sole executive body and/or members of the collegial executive body; (3) the establishment of a corporate body responsible for the internal audit (control) and adoption of an internal audit (control) policy; (4) the adoption of a dividend policy; (5) the obligation to notify shareholders about the annual general shareholders meeting not less than 30 days before the date of the meeting; and (6) the obligation to disclose information about the date when the list of persons entitled to participate in a general shareholders meeting is prepared, at least seven days prior to such date.

We also comply with applicable corporate governance requirements of the NYSE. The NYSE permits listed companies that are foreign private issuers, such as Mechel, to follow their home jurisdiction governance practice where it differs from the NYSE requirements. In addition, we have voluntarily complied with certain other requirements applicable to U.S. companies under the NYSE Listing Standard 303A. A summary description of the NYSE Listing Standard 303A showing our compliance therewith and/or the alternative corporate governance practices followed by us is available at www.mechel.com. See also Item 16G. Corporate Governance.

Employees

As of December 31, 2015 and 2014, we employed 65,888 and 67,880 people as follows:

Segment	2015		2014	
	Total Employees	% Unionized	Total Employees	% Unionized
Mining	24,322	66%	24,969	68%
Steel	36,430	61%	37,769	60%
Power	4,447	34%	4,436	36%
Other	689	8%	706	16%
Total	65,888	61%	67,880	61%

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Set out below is information about membership of our employees in trade unions:

Employees of Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant, Southern Urals Nickel Plant, Korshunov Mining Plant, Moscow Coke and Gas Plant, Mechel Coke, Izhstal, Bratsk Ferroalloy Plant, Mechel Materials and Pugachevsky Open Pit are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Urals Stampings Plant are members of the Trade Union of Machinists of the Russian Federation, employees of Chelyabinsk branch of Urals Stampings Plant are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Southern Kuzbass Coal Company and its subsidiaries Tomusinsky Open Pit, Vzryvprom and Shakhtspetsstroy are members of the Russian Independent Trade Union of Coal Industry Workers and of the Independent Trade Union of Miners of Russia.

Employees of Yakutugol, Neryungry Car Fleet and Mechel-Remservice are members of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Mechel Energo are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Port Posiet are members of the Russian Stevedores Trade Union.

Employees of Mecheltrans separate business unit in the city of Myski are members of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Southern Kuzbass Power Plant are members of the All-Russian Power Industry Trade Union and of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Kuzbass Power Sales Company are members of the All-Russian Power Industry Trade Union.

Employees of Mechel Nemunas are members of the Trade Union Nemunas.

Employees of Donetsk Electrometallurgical Plant are members of the Trade Union of Workers of Metallurgical and Mining Industry of Ukraine.

We consider our relationships with our employees to be good.

Item 7. Major Shareholders and Related Party Transactions

The following table sets forth information regarding our major shareholders, which means shareholders that are the beneficial owners of 5% or more of our common shares, as of March 31, 2016, based on the information available to us:

Name of Beneficial Owner	Number of Common Shares	% of Common Shares
Igor V. Zyuzin ⁽¹⁾	151,273,468	36.34%
Irina V. Zyuzina ⁽²⁾	77,826,997	18.70%
Ksenia I. Zyuzina ⁽²⁾	77,826,997	18.70%
Kirill I. Zyuzin ⁽²⁾	77,826,997	18.70%
Other ⁽³⁾⁽⁴⁾	187,170,280	44.96%

- (1) Mr. Zyuzin is the Chairman of our Board of Directors. See Item 6. Directors, Senior Management and Employees Directors and Executive Officers. Mr. Zyuzin may be deemed to be the beneficial owner of approximately 36.34% of our common shares through (i) his record ownership of 21.54% of our common shares; and (ii) his ownership of 100% of the equity interest in Calridge Limited (**Calridge**). Calridge is the owner of 14.80% of our common shares. Further information regarding the shareholdings of Mr. Zyuzin is available in the Schedule 13D filed by him with the SEC.

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- (2) In the course of 2016, MetHol OOO (**MetHol**), which is owned by Mrs. Irina V. Zyuzina, Ms. Ksenia I. Zyuzina and Mr. Kirill I. Zyuzin (the **Zyuzin Family Members**), acquired 77,826,997 of our common shares from Calridge. As a result, MetHol is now the owner of 18.70% of our common shares. As a result, each of the Zyuzin Family Members may be deemed to share beneficial ownership of the 18.70% shareholding held of record by MetHol. Further information regarding the shareholdings of the Zyuzin Family Members is available in the Schedule 13D that each Zyuzin Family Member has filed with the SEC.
- (3) According to Deutsche Bank Trust Company Americas, as of March 31, 2016, 43,188,339 common ADSs and 26,750,001 GDSs were outstanding, representing 33.60% of our total issued common shares.
- (4) We believe our directors and executive officers as a group, other than Mr. Zyuzin and Zyuzin Family Members, beneficially own less than 1% of our shares.

None of our common shareholders have voting rights which differ from any other holders of our common shares. Based on our share register, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control.

Related Party Transactions

See note 14 to the consolidated financial statements.

Item 8. Financial Information

See Item 18. Financial Statements.

Litigation

Other than the legal proceedings described below, we are not involved in any legal proceedings that we believe to be material.

Tax

On January 16, 2012, Mechel Trading House received an assessment from the tax authorities for profit tax, interest and incurred penalties in a total amount of 5.9 billion rubles for the 2008-2009 period. We contested this assessment through the administrative procedure with the higher-level tax authorities which reduced the assessment to 5.5 billion rubles. On June 5, 2012, Mechel Trading House filed a claim with the Moscow Arbitrazh Court to contest the amount of 5.5 billion rubles. On January 9, 2014, the Moscow Arbitrazh Court sustained the Mechel Trading House claims in part of 1.6 billion rubles, including penalties and fines, and the remaining claims were denied. Mechel Trading House did not appeal the decision. On June 19, 2014, the Moscow Arbitrazh Court sustained the application of Mechel Trading House, requesting leave to repay the remaining 3.9 billion ruble assessment on an installment basis by May 2016. On March 15, 2016, Mechel Trading House reapplied with the court for installment payment. On March 31, 2016, the Moscow Arbitrazh Court extended the installment payment until May 2017.

In June 2012, Chelyabinsk Metallurgical Plant received an assessment from the tax authorities for profit tax, interest and incurred penalties in a total amount of 315.2 million rubles for the year 2008. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities reduced the assessment to 104.6 million rubles. On January 18, 2013, Chelyabinsk Metallurgical Plant filed a claim with the Moscow Arbitrazh Court to contest the amount of 104.6 million rubles. On December 29, 2014, the Moscow Arbitrazh Court sustained the Chelyabinsk Metallurgical Plant claims in part of 28.3 million rubles and the remaining claims were denied. Chelyabinsk Metallurgical Plant filed an appeal with the Ninth Arbitrazh Court of Appeal. On February 19, 2015, the Ninth Arbitrazh Court of Appeal reversed the lower court's decision in part of reducing the profit tax assessment in the

amount of 69.0 thousand rubles, the rest of the court's decision was upheld. Chelyabinsk Metallurgical Plant filed a cassation appeal with the Arbitrazh Court of Moscow District. On July 3, 2015, the court dismissed the cassation appeal.

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We believe that we have paid or accrued all taxes that are applicable. Where uncertainty exists, we have accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. We accrued RUB 480 million and RUB 620 million of tax claims other than income tax that management believes are probable as of December 31, 2015 and 2014, respectively. In addition, income tax claims that management believes are probable were accrued. See note 21 to the consolidated financial statements.

Antimonopoly

In September 2013, the FAS found the Administration of the Kemerovo region, Russian Railways and 16 largest freight railway operators, including Mecheltrans, to have violated the Competition Law by entering into an agreement that led or could have led to the division of the commodity market on a territorial principle, in volume of sale of goods and composition of customers of goods, as well as to limiting access to the commodity market for entities or their elimination from it. Mecheltrans was fined by the FAS in the amount of 19.3 million rubles. We filed an appeal with the Moscow Arbitrazh Court. In June 2015, the Moscow Arbitrazh Court invalidated the regulation of the FAS and cancelled the fine. In September and December 2015, the higher courts upheld the decision of the Moscow Arbitrazh Court. In April 2016, the Supreme Court of the Russian Federation denied to transfer the FAS's cassation appeal for consideration at the court hearing of the Chamber for Commercial Disputes of the Supreme Court of the Russian Federation.

Environmental and safety

Pursuant to a claim of the Novokuznetsk Environmental Prosecutor's Office against Southern Kuzbass Power Plant concerning the discharge of pollutants into the atmosphere above the maximum allowable level, the court ruled in September 2008 that we must limit the discharge of pollutants into the atmosphere to comply with the maximum allowable level. We have complied with the ruling effective as of November 2009. The court also mandated us to reconstruct the de-dusting system. Since then, we have applied several times for stay of execution, the last time being in June 2014, and the court allowed us to stay execution of this mandate until June 1, 2016. We are continuing with the reconstruction and replacement of the dust and gas scrubber equipment. During 2013-2015, we completed the reconstruction of three of the boilers and have commenced the reconstruction of another boiler.

On June 11, 2013, the Department of Rosprirodnadzor for the Republic of Bashkortostan filed a lawsuit against Beloretsk Metallurgical Plant with the Arbitrazh Court of the Republic of Bashkortostan seeking the recovery of damages caused to water resources as a result of non-compliance with water legislation in the amount of 408.2 million rubles. During the court hearings claims under the lawsuit were reduced to 398.6 million rubles. On October 3, 2013, the Arbitrazh Court of the Republic of Bashkortostan rendered a decision to collect from Beloretsk Metallurgical Plant the amount of damages in the amount of 398.6 million rubles. We contested this decision with the Eighteenth Arbitrazh Court of Appeal. On January 28, 2014, the court upheld the decision of the lower court. On February 7, 2014, Beloretsk Metallurgical Plant filed a cassation appeal with the Federal Arbitrazh Court of Ural District. At the court hearing held on April 14, 2014 Beloretsk Metallurgical Plant withdrew its cassation appeal. On May 27, 2014, the Arbitrazh Court of the Republic of Bashkortostan approved a settlement agreement between Rosprirodnadzor for the Republic of Bashkortostan and Beloretsk Metallurgical Plant. In accordance with the settlement agreement, Beloretsk Metallurgical Plant is obliged to develop project documentation for the technical upgrading and/or reconstruction (construction) of waste treatment facilities system in order to bring the quality of discharged waste water into compliance with applicable regulatory requirements. The reconstruction of waste treatment facilities system must be completed by December 31, 2016.

In February 2016, the Bratsk Environmental Prosecutor's Office filed a claim with the Bratsk City Court of Irkutsk region against Bratsk Ferroalloy Plant seeking to ban (suspend) operation of one ore-thermal furnace until the complete replacement of the filter elements of its gas-cleaning unit and to oblige Bratsk Ferroalloy Plant to carry out the replacement of the filter elements by June 1, 2016. The court sustained the claims of the Bratsk

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Environmental Prosecutor's Office regarding the replacement of the filter elements by June 1, 2016 and dismissed the rest of claims. We have begun to replace the filter elements.

Commercial litigation

During the period from February 2014 to April 2015, Novatek Chelyabinsk OOO filed 18 claims against Chelyabinsk Metallurgical Plant with the Arbitrazh Court of Chelyabinsk region seeking recovery of debt for gas supplied from December 2013 to March 2015 in an aggregate amount of approximately 8.0 billion rubles and penalty for delay in payment in an aggregate amount of approximately 145.0 million rubles. During the court hearings the amounts of claims were reduced to approximately 7.1 billion rubles of principal and approximately 160.0 million rubles of penalties. From April 2014 to October 2015, the Arbitrazh Court of Chelyabinsk region sustained the plaintiff's claims under 18 cases. We appealed 16 cases. From July 2014 to October 2015, the Eighteenth Arbitrazh Court of Appeal dismissed our claims with respect to all these cases. Chelyabinsk Metallurgical Plant repaid debt in the amount of 7.1 billion rubles as principal and 45.5 million rubles as penalty.

On August 11, 2014, RPFB Project Finance OOO filed a claim against Mechel with the Moscow Arbitrazh Court seeking recovery of debt for provided consulting services in the amount of 731.8 million rubles, interest in the amount of 20.2 million rubles and litigation costs. On February 25, 2015, the Moscow Arbitrazh Court rendered a decision to sustain the claim in full. We appealed the decision, but the higher courts dismissed our claims. In August 2015, RPFB Project Finance OOO filed a bankruptcy petition with the Moscow Arbitrazh Court. In September 2015, the debt was repaid in full and the court terminated the proceedings.

In December 2014, Minmetals appealed to the Arbitration Institute of the Stockholm Chamber of Commerce against Chelyabinsk Metallurgical Plant to recover alleged amounts due under the equipment supply contract amounting in total to approximately \$128.4 million. Chelyabinsk Metallurgical Plant has submitted a counterclaim in this matter amounting to \$68.4 million, which includes a penalty for delay and the recovery of damages for failing to perform works and rectifying works of poor quality. The tribunal has been appointed. The parties have provided evidence as per arbitration proceeding. Currently, Chelyabinsk Metallurgical Plant has challenged an arbitrator appointed by Minmetals. Minmetals has to appeal the statement of defense of the defendant and present a statement of defense to the cross-action with the attachment of the evidence until May 31, 2016.

In February 2015, Mecheltrans filed a claim against SM Capital OOO with the Moscow Arbitrazh Court seeking recovery of debt under REPO agreements (bonds) in the amount of 1.38 billion rubles. In March 2015, SM Capital OOO filed a counterclaim against Mecheltrans and Mechel (as the guarantor) with the Moscow Arbitrazh Court seeking recovery of debt under the same REPO agreements (bonds) in the amount of 1.44 billion rubles. On June 30, 2015, the Moscow Arbitrazh Court sustained the Mecheltrans's claim in full and dismissed the counterclaim of SM Capital OOO. SM Capital OOO filed an appeal. The Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court.

From May 2015 to April 2016, Novatek Chelyabinsk OOO filed 20 claims against Chelyabinsk Metallurgical Plant with the Arbitrazh Court of Chelyabinsk region seeking recovery of debt for gas supplied from April 2015 to March 2016 in an aggregate amount of approximately 6.3 billion rubles and penalty for delay in payment in an aggregate amount of approximately 229.4 million rubles. During the period from July 2015 to April 2016, the Arbitrazh Court of Chelyabinsk region sustained the plaintiff's claims under 18 cases. We appealed 16 cases. The Eighteenth Arbitrazh Court of Appeal dismissed our claims with respect to 12 cases and the remaining four cases will be considered in May 2016. The court hearings with respect to two cases are scheduled for late April-May 2016. Chelyabinsk Metallurgical Plant repaid debt in the amount of 4.0 billion rubles as principal.

In December 2015, ERG SALES AG filed a claim against Chelyabinsk Metallurgical Plant with the London Court of International Arbitration (**LCIA**) seeking recovery of debt under iron ore feed supply contract in the amount of \$10.7 million and penalty for delay in payment in the amount of \$513.4 thousand. The court hearing has not been scheduled yet.

Table of Contents***Debt litigation******VTB Group Companies***

On September 25, 2014, VTB Bank filed a lawsuit against Mechel with the Moscow Arbitrazh Court seeking recovery of debt under a credit facility agreement in an aggregate amount of approximately 3.0 billion rubles, including interest on the loan in the amount of 2.9 billion rubles and penalty in the amount of 104.5 million rubles. On October 30, 2014, we filed a counterclaim against VTB Bank seeking the revision of credit facility clauses. On December 12, 2014, the Moscow Arbitrazh Court sustained the VTB Bank claims and dismissed our claims. On June 9, 2015, the Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court. We filed a cassation appeal which was returned upon our request due to the restructuring of the debt.

In October 2014, VTB Factoring OOO filed a lawsuit with the Moscow Arbitrazh Court against Chelyabinsk Metallurgical Plant and Mechel Service seeking jointly and severally recovery of debt on payments of 867.7 million rubles, and recovery from Chelyabinsk Metallurgical Plant of debt on payments of financing fees of 86.6 million rubles. On February 3, 2015, the Moscow Arbitrazh Court sustained the lawsuit in full. Chelyabinsk Metallurgical Plant and Mechel Service appealed with the Ninth Arbitrazh Court of Appeal. On April 27, 2015, the Ninth Arbitrazh Court of Appeal dismissed the appeals. In August 2015, the proceedings were terminated in connection with the approval of the settlement agreement by the court.

In December 2014, Yakutugol and Southern Kuzbass Coal Company each filed separate lawsuits against VTB Bank with the Moscow Arbitrazh Court seeking amendment of the loan agreements in connection with the substantial change of circumstances, namely a sharp decline in coal prices. We withdrew these lawsuits due to the restructuring of the debt.

On December 30, 2014, Mechel Carbon Singapore received Statutory Demands from VTB Bank for the payment of: (i) 10.0 billion rubles (principal amount) and 322.2 million rubles (interest) based on the guarantee of Mechel Carbon Singapore in favor of VTB Bank under the credit facility agreement between VTB Bank and Southern Kuzbass Coal Company, and (ii) 5.8 billion rubles (principal amount) and 187.3 million rubles (interest) based on the guarantee of Mechel Carbon Singapore in favor of VTB Bank under the credit facility agreement between VTB Bank and Yakutugol. On January 20, 2015, Mechel Carbon Singapore declined to pay under the Statutory Demands of VTB Bank with respect to several litigations concerning credit facility agreements between the borrowers (Southern Kuzbass Coal Company and Yakutugol) and VTB Bank in Russia. On January 27, 2015, VTB Bank submitted an application to the High Court of Singapore for the winding up proceedings against Mechel Carbon Singapore. On February 13, 2015, the High Court stated that VTB Bank has to submit the final letter of claim by February 27, 2015 and Mechel Carbon Singapore has to submit the final letter of defense by March 13, 2015. VTB Bank submitted its final letter of claim on March 16, 2015 and Mechel Carbon Singapore submitted its final letter of defense on March 26, 2015. VTB Bank requested for hearings on April 6, 2015, April 9, 2015, April 30, 2015, July 1, 2015, September 28, 2015 and October 19, 2015, however due to the fact that restructuring agreements between Mechel and VTB Bank were signed and became effective on October 13, 2015, the High Court of Singapore ordered that VTB Bank be granted a right to withdraw its claims against Mechel on October 19, 2015.

On January 7, 2015, Mechel Carbon received two notices of Betriebsamt of Baar where it was informed about the proceedings against Mechel Carbon based on the claims of VTB Bank: (i) CHF 194.0 million and CHF 6.2 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Southern Kuzbass Coal Company under the credit facility agreement, and (ii) CHF 112.8 million and CHF 3.6 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Yakutugol under the credit facility agreement. On January 8, 2015, Mechel Carbon rejected the proceedings by submission of two

Rechtsvorschlag (i.e., a motion exercising the right to refuse the procedure for compulsory execution). The proceedings were stopped. On February 16, 2015, Mechel Carbon received two claims of VTB Bank dated February 10, 2015 and court orders of canton Zug dated February 13,

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2015 with respect to the following amounts: (i) CHF 184.7 million and CHF 6.2 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Southern Kuzbass Coal Company under the credit facility agreement, and (ii) CHF 107.4 million and CHF 3.6 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Yakutugol under the credit facility agreement. In court of canton Zug, VTB Bank is challenging Mechel Carbon's refusal to participate in the enforcement proceedings. The Cantonal Court of Zug asked Mechel Carbon to submit a statement of defense within seven days. Mechel Carbon has applied for the extension. The Cantonal Court of Zug has granted the extension until April 17, 2015. Statement of defense of Mechel Carbon has been filed. The hearings were suspended until July 5, 2016 based on the parties mutual request.

On January 7, 2015, Mechel Trading received the notice of Betreibungsamt of Baar where it was informed about the proceedings against Mechel Trading based on the claim of VTB Bank in the amount of CHF 51.6 million and CHF 1.3 million resulting from the guarantee issued by Mechel Trading in favor of VTB Bank under the payment obligations of Mechel. On January 8, 2015, Mechel Trading rejected the proceedings by submission of Rechtsvorschlag. The proceedings were stopped. On January 14, 2015, Mechel Trading received the notice of Betreibungsamt of Baar about the proceedings against Mechel Trading based on the claim of VTB Bank in the amount of CHF 694.9 million and CHF 50.1 million (interest) and CHF 2.3 million (penalty for the payment default) resulting from the guarantee issued by Mechel Trading in favor of VTB Bank under the payment obligations of Mechel. On January 19, 2015, Mechel Trading rejected the proceedings by submission of Rechtsvorschlag. The proceedings were stopped. On February 16, 2015, Mechel Trading received one claim of VTB Bank dated February 10, 2015 and court order of canton Zug dated February 13, 2015, with respect to the amount of CHF 747.3 million. In court of canton Zug, VTB Bank is challenging Mechel Trading's refusal to participate in the enforcement proceedings. The Cantonal Court of Zug asked Mechel Trading to submit a statement of defense within seven days. Mechel Trading has applied for the extension. The Cantonal Court of Zug has granted the extension until April 17, 2015. Statement of defense of Mechel Trading has been filed. The hearings were suspended until July 5, 2016 based on the parties mutual request.

On February 2, 2015, VTB Bank filed a lawsuit against Mechel with the Moscow Arbitrazh Court seeking recovery of principal and interest under the credit facility agreement in the amount of 50.2 billion rubles, of which principal amounts to 44.5 billion rubles, interest amounts to 3.2 billion rubles and penalties amount to 2.5 billion rubles. In turn, Mechel filed a lawsuit with the Moscow Arbitrazh Court seeking invalidation of the certain clauses of the credit facility agreement and the notice which was sent on its basis. These two cases were combined into one. On April 9, 2015, the Moscow Arbitrazh Court sustained the VTB Bank claims and dismissed our claims. VTB Bank withdrew the lawsuit in connection with the restructuring of the debt. On January 21, 2016, the Ninth Arbitrazh Court of Appeal reversed the decision of the Moscow Arbitrazh Court and terminated the proceedings.

On February 12, 2015, Mechel Carbon Singapore submitted to the LCIA the letters of claim against VTB Bank which were accepted; the respondent was granted 28 days for the submission of its letter of defense. On February 24, 2015, VTB Bank exercised its right under the Southern Kuzbass Coal Company and Yakutugol guarantees to require the disputes submitted to the LCIA to be heard by English Courts. On March 25, 2015, Mechel Carbon Singapore filed a claim with the High Court of Justice of Great Britain, requesting injunctive relief restraining VTB Bank from continuing the Singapore proceedings. VTB Bank requested for hearings on April 6, 2015, April 9, 2015, April 30, 2015, July 1, 2015, September 28, 2015 and October 19, 2015, however due to the fact that restructuring agreements between Mechel and VTB Bank were signed and became effective on October 13, 2015, Mechel Carbon Singapore withdrew from the letter of claim on October 19, 2015.

On February 16, 2015, Yakutugol filed two lawsuits against VTB Bank with the Moscow Arbitrazh Court seeking invalidation of certain clauses of the loan agreement regarding the notification of early repayment of the loan amount and the terms of payment of fees. We lost the case regarding the notification and withdrew the lawsuit on the terms of

payment in connection with the restructuring of the debt.

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On February 17 and 18, 2015, Southern Kuzbass Coal Company filed two lawsuits against VTB Bank with the Moscow Arbitrazh Court seeking invalidation of certain clauses of the loan agreement regarding the notification of early repayment of the loan amount and the terms of payment of fees. On April 17, 2015, the Moscow Arbitrazh Court dismissed our claims. Southern Kuzbass Coal Company filed appeals with the Ninth Arbitrazh Court of Appeal, but later withdrew them due to the debt restructuring.

On March 2, 2015, we received notice from the LCIA that VTB Bank has filed a request for arbitration against Mechel, claiming \$101.9 million (plus interest, expenses and any other amounts awarded by the arbitral tribunal) pursuant to a guarantee under which Mechel has allegedly guaranteed the performance of obligations of Skyblock Limited under a 2012 ISDA Master Agreement currency derivative transaction between Skyblock Limited and VTB Bank (Austria) AG (the **2012 ISDA Master Agreement**). On March 4, 2015, VTB Bank delivered its demand for immediate payment of the \$101.9 million amount, threatening to petition for the winding-up of Skyblock Limited in case Skyblock Limited fails to pay this outstanding amount. On March 27, 2015, Mechel sent to the LCIA its response to the request for arbitration, rejecting VTB Bank's claim, including, inter alia, the validity of early termination of the 2012 ISDA Master Agreement. On March 31, 2015, notice was served on Mechel Service Global concerning the seizure of shares of the company in favor of VTB Bank. Such shares were seized according to the judgment of the court in the Hague dated March 30, 2015 as an interim measure in support of the LCIA arbitration claim by VTB Bank against Mechel. On April 10, 2015, VTB Bank submitted a request for arbitration against Skyblock Limited under the 2012 ISDA Master Agreement. Due to the restructuring negotiations initially the parties have agreed on the moratorium for any arbitration proceedings until July 1, 2015, since then this moratorium has been extended until July 1, 2016. In October 2015, the payment obligations of Skyblock Limited under the 2012 ISDA Master Agreement have been repaid.

On March 16, 2015, we received notice from the LCIA that VTB Bank and VTB Capital Plc have filed 14 requests for arbitration against our group companies. The 14 requests claim amounts allegedly due, including during the arbitration, plus expenses and any other amounts awarded by the arbitral tribunal, pursuant to two syndicated credit agreements (one involving Yakutugol and the other involving Southern Kuzbass Coal Company) and 12 deeds of guarantee with respect to those syndicated credit agreements. Under these deeds of guarantee, the guarantors (Mechel, Mechel Mining, Mechel Carbon, Mechel Carbon Singapore, Korshunov Mining Plant, Yakutugol and Southern Kuzbass Coal Company) each guaranteed the obligations of the borrowers (Yakutugol and Southern Kuzbass Coal Company) under each of the syndicated credit agreements. As of the date of the filing of the requests for arbitration, the claim against Yakutugol as borrower and the claims against each of the Yakutugol guarantors is \$16.2 million, and the claim against Southern Kuzbass Coal Company as borrower and the claims against each of the Southern Kuzbass Coal Company guarantors is \$16.3 million. On March 17-18, 2015, we received notice from the LCIA concerning the initiation of the 14 arbitration cases described above. On April 13, 2015, the relevant Mechel group companies filed preliminary response letters in respect of the 14 arbitration cases described above. On April 24, 2015, in support of the 14 aforementioned LCIA arbitration proceedings, VTB Bank and VTB Capital Plc filed an arbitration claim with the High Court of Justice Queen's Bench Division Commercial Court in England seeking injunctive relief to secure their arbitration claims. The first hearing regarding injunctions took place on April 29, 2015, following the hearing and considering parties position the court postponed the hearing until May 18, 2015, however, later due to the restructuring negotiations the parties agreed on the moratorium for injunction hearing until July 1, 2015, afterwards the moratorium for hearing and arbitration proceedings has been extended until September 1, November 1, December 1, 2015, February 1, 2016, April 1, 2016, July 1, 2016.

On April 13, 2015, Southern Kuzbass Coal Company and Yakutugol filed two lawsuits against VTB Bank with the Moscow Arbitrazh Court seeking invalidation of credit facility agreements, particularly the grant to VTB Bank of the right to demand unilaterally from Southern Kuzbass Coal Company and Yakutugol to sell U.S. dollars at the exchange rate of 29.45 rubles per one U.S. dollar (while the exchange rate of this currency was about 35 rubles per one U.S.

dollar), and invalidation of transactions sold at such exchange rate. Later we withdrew these lawsuits due to the restructuring of the debt.

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In September-October 2014, Sberbank Leasing AO filed 14 lawsuits against Mechel and our subsidiaries with the arbitrazh courts of first instance in five regions of the Russian Federation seeking recovery of lease payments and penalties under equipment finance leases totaling approximately 952.3 million rubles and \$3.0 million. From November 2014 to May 2015, the arbitrazh courts of first instance ruled in favor of Sberbank Leasing AO for all cases. Our appeals were considered and rejected by the courts of appeal during the period from May to November 2015.

In October 2014, Sberbank filed a lawsuit against Bratsk Ferroalloy Plant and Mechel with the Arbitrazh Court of Irkutsk region seeking recovery of overdue interest under the loan agreement in the amount of approximately 21.9 million rubles. As the debt was repaid, Sberbank specified its claim and on January 21, 2015 the Arbitrazh Court of Irkutsk region rendered a decision to recover penalties on overdue interest in the amount of approximately 212.9 thousand rubles. Bratsk Ferroalloy Plant filed an appeal which was dismissed by the Fourth Arbitrazh Court of Appeal in May 2015.

On October 16, 2014, Sberbank filed a lawsuit against Mechel Trading with the International Court of Commercial Arbitration at the Chamber of Commerce and Industry of the Russian Federation seeking recovery of interest under the loan agreement in the amount of approximately \$1.2 million. Since the guarantor repaid the amount of interest, the court ruled to recover interest for another period (not repaid by the guarantor) in the amount of \$13.1 thousand. In June 2015, Sberbank filed an application with the Moscow Arbitrazh Court seeking enforcement of the ruling of the International Court of Commercial Arbitration at the Chamber of Commerce and Industry of the Russian Federation. On February 16, 2016, the Moscow Arbitrazh Court sustained the application of Sberbank and issued an order of enforcement.

In October 2014, Sberbank filed eight lawsuits against Mechel and our subsidiaries with the Moscow Arbitrazh Court seeking recovery of debt (interest and penalties under credit facility agreements) in an aggregate amount of approximately 1.6 billion rubles and \$1.6 million. After the commencement of court proceedings, interest in the amount of 1.5 billion rubles and \$1.6 million was repaid voluntarily except for penalties which could be changed in the course of hearings. On December 19, 2014, the Moscow Arbitrazh Court partially sustained the claims of Sberbank and recovered penalties in the amount of 259.1 thousand rubles under the first case. Sberbank filed an appeal, but later withdrew it. On February 9, 2015, the Moscow Arbitrazh Court separated the second case into three separate disputes. Under one new case, the court recovered penalties in the amount of 10.6 million rubles and under the other two cases Sberbank abandoned its claims. We filed an appeal which was dismissed by the Ninth Arbitrazh Court of Appeal. On February 13, 2015, the Moscow Arbitrazh Court dismissed Sberbank's claims under the third case. On February 18, 2015, the Moscow Arbitrazh Court sustained the claims of Sberbank to increase the amount of overdue interest by \$2.9 million in connection with the conversion of the credit facility into U.S. dollars on the base of the novation agreement. According to this agreement the debt in Russian rubles was converted into U.S. dollars at the exchange rate of 31.0 rubles per one U.S. dollar, while on the date of conversion the exchange rate was 50.0 rubles per one U.S. dollar. Southern Kuzbass Coal Company received a new obligation to pay Sberbank the difference between these quotations and the increase in penalty by 2.4 million rubles and \$42.9 thousand under the fourth case. Southern Kuzbass Coal Company filed a counterclaim seeking invalidation of this novation agreement. On April 2, 2015, the Moscow Arbitrazh Court dismissed the counterclaim. We filed an appeal which was dismissed by the Ninth Arbitrazh Court of Appeal. Later we filed a cassation appeal, but withdrew it in connection with the restructuring of the debt. On February 19, 2015, the Moscow Arbitrazh Court partially sustained the claims of Sberbank and recovered penalties in the amount of 20.6 million rubles under the fifth case. We appealed the decision in the court of appeal and the court of cassation, the courts dismissed our claims. On March 3, 2015, the Moscow Arbitrazh Court partially sustained the claims of Sberbank and recovered penalty in the amount of 22.8 thousand rubles under the sixth case. Sberbank filed

an appeal regarding the stamp duty distribution which was sustained by the court in May 2015. With respect to the remaining two cases, Sberbank withdrew the lawsuits due to the repayment of the debt.

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In February-March 2015, Sberbank filed two lawsuits against Mechel and our subsidiaries with the Moscow Arbitrazh Court seeking recovery of debt (interest under credit facility agreements) in an aggregate amount of approximately 7.4 million rubles and \$6.7 million. These litigations refer, inter alia, to the novation agreement on the base of which the debt in Russian rubles was converted into U.S. dollars. Under one of the litigations, on April 21, 2015, we filed a counterclaim seeking invalidation of two novation agreements. The second litigation was joined with the Southern Kuzbass Coal Company's lawsuit filed on February 26, 2015 against Sberbank with the Moscow Arbitrazh Court seeking invalidation of the novation agreement on the base of which the ruble debt was converted into U.S. dollars at the exchange rate of 31.0 rubles per one U.S. dollar (while on the date of conversion the exchange rate was 50.0 rubles per one U.S. dollar) and Southern Kuzbass Coal Company received a new obligation to pay Sberbank the difference between these quotations. We lost these cases in the Moscow Arbitrazh Court and the Ninth Arbitrazh Court of Appeal. Later we lost in the court of cassation with respect to the first case and withdrew the second one in connection with the restructuring of the debt.

In 2015, Sberbank Leasing AO filed 32 lawsuits against Mechel and our subsidiaries with the arbitrazh courts of first instance in five regions of the Russian Federation seeking recovery of lease payments, penalties and transfer of leasing assets under equipment finance leases totaling approximately 1.3 billion rubles and \$4.5 million. The arbitrazh courts of first instance sustained in full and in part the plaintiff's claims on recovery of debt under 31 cases, taking into account our counterclaims, as well as sustained in full the plaintiff's claims on recovery of property under 29 of these cases. We appealed all these cases. Sberbank Leasing AO appealed those cases under which the claims were sustained in part. In March-May 2016, the arbitrazh courts of first instance and of appeal approved settlement agreements regarding 30 cases. One of the settlement agreements in the amount of approximately \$4.5 million was not approved by the court and we filed a cassation appeal. The court hearing with respect to the remaining one case is scheduled for June 1, 2016.

Other

From June to September 2015 and in March 2016, Caterpillar Financial OOO filed eight lawsuits with the Moscow Arbitrazh Court against Yakutugol, Mechel Engineering, Korshunov Mining Plant, Mechel Materials, Metallurgshakhtspetsstroy, Tomusinsky Open Pit and Southern Kuzbass Coal Company, as well as Mechel (as the guarantor under four lease agreements) seeking termination of lease agreements, withdrawal of leasing assets and recovery of debt in an aggregate amount of approximately \$5.0 million and 313.9 thousand. As of the date hereof, the Moscow Arbitrazh Court sustained the claims regarding the recovery of debt in the amount of approximately \$4.0 million and 380.2 thousand and dismissed the claims regarding the withdrawal of leasing assets under five cases; sustained the claims regarding the withdrawal of leasing assets and dismissed the rest of claims under one case; sustained in full the plaintiff's claims under one case. One lawsuit has been left without motion until April 29, 2016. Caterpillar Financial OOO appealed with the Ninth Arbitrazh Court of Appeal all the cases. During the period from January to April 2016, the court upheld the decisions of the lower court under five cases. We also intend to appeal the Moscow Arbitrazh Court's decisions regarding the withdrawal of leasing assets under two cases.

Securities litigation

On December 16, 2013, SAVEN ENTERPRISES LTD. (**SAVEN**) filed a claim in the Arbitrazh Court of Kemerovo region against Tomusinsky Open Pit and Southern Kuzbass Coal Company seeking invalidation of coal supply contracts signed between Tomusinsky Open Pit and Southern Kuzbass Coal Company, application of the consequences of their invalidity in the form of repayment of 21.1 billion rubles and interest recovery in favor of Tomusinsky Open Pit. During the trial, the amount of claims was reduced to 16.4 billion rubles and several expert examinations regarding the determination of the market price of coal sold under these contracts were conducted. The experts confirmed that the coal was sold based on market prices. On January 30, 2015, the Arbitrazh Court of

Kemerovo region ruled to dismiss the claims of SAVEN. SAVEN filed an appeal with the Seventh Arbitrazh Court of Appeal. The court dismissed the appeal. SAVEN filed a cassation appeal with the Arbitrazh Court of West Siberian District. On September 14, 2015, the Arbitrazh Court of West Siberian District

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reversed the lower courts decisions and remanded the case for a new proceeding with the court of first instance. On April 28, 2016, the Arbitrazh Court of Kemerovo region ruled to conduct a judicial expertise until August 2016 and suspended the proceedings.

In May 2014, SAVEN filed with the District Court of Nicosia a lawsuit against Tomusinsky Open Pit and other Russian group companies, Mr. Zyuzin and Russian and Cypriot companies belonging to him and his family members, claiming damages amounting to \$781.4 million for losses allegedly caused to Tomusinsky Open Pit and SAVEN as a minority shareholder in Tomusinsky Open Pit. In the context of the above lawsuit, SAVEN applied for the seizure of assets of the defendant Cypriot companies and Mr. Zyuzin and on May 20, 2014 the Cyprus Court granted ex parte such freezing injunctions. The Cypriot defendant companies and Mr. Zyuzin are challenging the validity of the ex parte injunctions and the application for interim injunctions is pending for hearing. On April 30, 2015, the Court dismissed the application of Tomusinsky Open Pit regarding challenging the jurisdiction of Cyprus Courts, all other applications of other group defendants have been rescheduled. In May 2015, Tomusinsky Open Pit filed an appeal, the hearing is still pending. Due to the appeal filing the Cyprus Court several times adjourned the hearings, next will take place on May 20, 2016.

In August 2014, Arsagera Asset Management OAO filed a claim with the Moscow Arbitrazh Court against Mechel seeking invalidation of the decision of our annual general shareholders meeting relating to the confirmation of dividend payments in the amount of 0.05 rubles per one preferred share. The Moscow Arbitrazh Court dismissed the claim. The plaintiff appealed to the Ninth Arbitrazh Court of Appeal which upheld the decision of the Moscow Arbitrazh Court. In April 2015, the plaintiff filed a cassation appeal with the Arbitrazh Court of Moscow District. During the period from June to September 2015, the higher courts upheld the decision of the Moscow Arbitrazh Court.

In December 2014, Rudservis OOO filed two claims against Southern Kuzbass Coal Company with the Arbitrazh Court of Kemerovo region seeking compensation for losses incurred due to delayed payment for delivered products under coal supply contracts concluded between Tomusinsky Open Pit and Southern Kuzbass Coal Company in a total principal amount of approximately 11.2 billion rubles. Rudservis OOO is a minority shareholder of Tomusinsky Open Pit. In May and June 2015, the Arbitrazh Court of Kemerovo region dismissed the claims of Rudservis OOO. Later the higher courts upheld the decision of the Arbitrazh Court of Kemerovo region.

In January and April 2015, Rudservis OOO filed two claims against Southern Kuzbass Coal Company, Mechel Mining and Mechel with the Arbitrazh Court of Kemerovo region seeking recovery of damages (loss of profit) received by Tomusinsky Open Pit as a result of coal supplies to Southern Kuzbass Coal Company in a total amount of 11.8 billion rubles. In July 2015, these two cases were combined into one. In October 2015, the Arbitrazh Court of Kemerovo region stayed proceedings. On January 26, 2016, Rudservis OOO abandoned its claims.

In April 2015, Vadim Varshavsky filed a lawsuit with the Moscow Arbitrazh Court seeking to oblige Mechel and Mechel Steel OOO to perform share purchase agreements by transferring 2,000 shares of our Cypriot company Daveze Limited and to recognize the plaintiff's title to these shares. In August 2015, the Moscow Arbitrazh Court ruled to terminate the proceedings. Vadim Varshavsky appealed to the higher courts. In December 2015, the Arbitrazh Court of Moscow District reversed the lower courts decisions and remanded the case for a new proceeding. The court session is adjourned until May 23, 2016.

Dividend Distribution Policy

We determine the amount of dividends payable on our common shares based on cash needs of our business, which will be influenced by the market situation, results of our operations, the level and availability of debt and debt

servicing requirements and the requirements of our capital investment program.

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We determine the amount of dividends payable on our preferred shares based on the provisions of our charter. See Item 10. Additional Information Description of Capital Stock Dividends.

In addition, some of our credit facility agreements impose certain restrictions on the payment of dividends on our shares. Mechel may not pay dividends on its common shares without the prior written consent of the lenders. The amount of permitted dividends paid on our preferred shares is limited to 7.5 million rubles.

The decision to pay dividends and the amount thereof must be recommended by our Board of Directors taking into account the charter's provisions and approved by our shareholders. The amount of dividends, if any, approved by the shareholders may not be higher than the amount proposed by the Board of Directors. In particular, dividends may be declared and paid only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

our charter capital has been paid in full;

the value of our 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 our charter capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;

we have repurchased all shares from shareholders having the right to demand repurchase; and

we are not, and would not become, insolvent as the result of the proposed dividend payment.

For a further description, please refer to Item 10. Additional Information Description of Capital Stock Dividends. See also Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

On June 30, 2015, our general shareholders' meeting decided not to pay dividends for 2014 on common shares and declared a dividend of 6.9 million rubles on preferred shares (of which 2.8 million rubles was paid to Skyblock Limited), which was paid in July and August 2015. On June 30, 2014, our general shareholders' meeting decided not to pay dividends for 2013 on common shares and declared a dividend of 6.9 million rubles on preferred shares (of which 2.8 million rubles was paid to Skyblock Limited), which was paid in July and August 2014. On June 28, 2013, our general shareholders' meeting decided not to pay dividends for 2012 on common shares and declared a dividend of 6.9 million rubles on preferred shares (of which 2.8 million rubles was paid to Skyblock Limited), which was paid in August 2013. In each case we could not pay dividends to those shareholders who did not provide us with their bank account details.

We anticipate that any dividends we may pay in the future on shares represented by ADSs will be declared and paid to the depositary in rubles (subject to Russian withholding tax) and will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses. Accordingly, the value of dividends received by holders of ADSs will be less than the amounts declared and subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. For information on risks associated with Russian withholding tax on dividends to holders of ADSs, see Item 10. Additional Information Taxation Russian Income and Withholding Tax Considerations.

Significant Changes

Ongoing debt restructuring

In the first quarter of 2016, we converted all U.S. dollar-denominated debt with Gazprombank into Russian rubles. After the conversion restructuring under the respective credit facilities became effective. As of the date hereof, restructuring of the remaining credit facilities with Gazprombank has not come into effect. In March 2016, we mortgaged the Ulak-Elga rail line to Gazprombank.

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In February 2016, we signed amendments with Sberbank to restructure debt in the amount of approximately 29.3 billion rubles and \$100.0 million, providing for, among others, extension of the repayment grace period until April 2017 and final maturity until April 2020. Further extension depends on obtainment of similar terms of restructuring with VTB Bank, as well as fulfillment of certain conditions subsequent. In March 2016, we signed additional amendments regulating time limits for fulfillment of conditions subsequent, including partial assignment of Sberbank's debt to Gazprombank in the total amount of 31.5 billion rubles.

In April 2016, following the assignment of Southern Kuzbass Coal Company's debt of \$423.1 million and 3.1 billion rubles from Sberbank to Gazprombank, we signed settlement agreements with the latter to convert the U.S. dollar-denominated debt into Russian rubles and to extend the maturity of the loans until June 30, 2016. The remaining debt was restructured with extension of grace period and principal repayment, new interest rates and levels of financial covenants.

For a more detailed description of the current terms of our credit facilities, see [Item 5. Operating and Financial Review and Prospects](#) [Description of Certain Indebtedness](#) and [Item 10. Additional Information](#) [Material Contracts](#).

Option for acquisition of a stake in the Elga coal complex

On April 1, 2016, we signed option agreements with Gazprombank providing the bank with an option to acquire a 49% stake in the Elga coal complex for a total consideration of 34.3 billion rubles. According to these agreements, we are obliged to sell to Gazprombank (after its acceptance of the option) a 49% stake in Elgaugol OOO, the owner of the subsoil license for the Elga coal deposit, a 49% stake in Elga-doroga OOO, the owner of the Ulak-Elga rail line which had been contributed to the registered capital of this newly established company in March 2016, and a 49% stake in Mecheltrans Vostok OOO, the rail line's transport operator (collectively, the **target companies**), by June 30, 2016. Proceeds from the sale of these stakes will be used for repayment of our debt to Gazprombank, Sberbank and Sberbank Leasing AO. The agreements also provide for joint coordination of management over the Elga coal complex. Gazprombank will have a put option to sell its stakes (in full or in part) in the Elga coal complex within three years following a five-year period or in case of a breach of conditions stipulated by such agreement. Put options are signed by Yakutugol and Mecheltrans (sellers of the stakes in the target companies) and will be guaranteed by Mechel Mining and Southern Kuzbass Coal Company. If we fail to perform under these put options Gazprombank will have the right to buy out (call option) the remaining stakes owned by us in the target companies. A 1.99% stake in each of the target companies will be pledged in favor of Gazprombank as a security for the call option. As of the date hereof, Gazprombank has not exercised its right to conclude sale and purchase agreements under option agreements and the stakes of the target companies have not been transferred to the bank.

Item 9. The Offer and Listing

Our common ADSs have been listed on the NYSE under the symbol **MTL** since October 2004. Our common shares were listed on Open Joint Stock Company Russian Trading System Stock Exchange (**RTS**) under the symbol **MTLR** in June 2004, and in October 2008 were promoted to the quotation list **A-2**. In December 2011, RTS ceased to exist as a result of its reorganization through accession to Closed Joint Stock Company Moscow Interbank Currency Exchange (**CJSC MICEX**), now Public Joint-Stock Company Moscow Exchange MICEX-RTS (**Moscow Exchange**), and our common shares were excluded from the quotation list **A-2** on RTS. In December 2008, our common shares were admitted to trading on MICEX and included in the quotation list **V**, and were promoted to the quotation list **A-1** in March 2009. Starting from December 2011, our common shares were traded in the quotation list **A-1** on MICEX. Since June 2014, our common shares have been trading on the MICEX Level 1 quotation list. The change is associated with the Moscow Exchange's new listing rules which came into effect on June 9, 2014. Level 1 includes securities that were on the **A-1** and **A-2** quotation lists before this date. Since the liquidity of our shares on MICEX

was typically much higher than on RTS, in the table below starting from January 2009 we use MICEX data (conversion from rubles into U.S. dollars is made using the CBR exchange rate).

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The following table sets forth the high and low closing prices per common ADS and common share for: (1) the most recent seven months; (2) the most recent nine quarters; and (3) all years following our initial public offering in 2004. Effective January 12, 2016, we changed the ratio of our common shares to common ADSs from 1:1 to 2:1. See Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market 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 common ADS prices below have been recalculated to reflect the new common ADS-to-common share ratio.

	Common ADSs		Common Shares	
	High	Low	High	Low
	(In U.S. dollars)			
April 2016	2.15	1.81	1.03	0.91
March 2016	2.05	1.72	0.94	0.91
February 2016	1.86	1.48	0.88	0.81
January 2016	2.00	1.29	0.89	0.69
December 2015	1.88	1.52	1.02	0.91
November 2015	1.94	1.67	1.03	0.91
October 2015	2.02	1.71	1.01	0.94
First Quarter 2016	2.05	1.29	0.94	0.69
Fourth Quarter 2015	2.02	1.52	1.03	0.91
Third Quarter 2015	2.48	1.34	1.07	0.75
Second Quarter 2015	2.94	2.34	1.35	1.20
First Quarter 2015	3.65	1.26	1.51	0.44
Fourth Quarter 2014	2.38	0.87	0.51	0.28
Third Quarter 2014	4.28	1.34	1.50	0.39
Second Quarter 2014	4.80	3.58	1.61	1.03
First Quarter 2014	5.12	3.32	1.99	0.86
2015	3.65	1.26	1.51	0.44
2014	5.12	0.87	1.99	0.28
2013	14.80	3.94	7.22	1.72
2012	24.74	10.54	11.89	5.35
2011	69.18	15.80	32.74	8.05
2010	61.60	34.90	30.11	17.64
2009	43.64	5.14	17.81	2.29
2008	115.24	7.32	45.00	4.10
2007	69.26	15.82	25.71	8.30
2006	20.64	12.68	10.20	6.25
2005	24.34	14.04	11.20	7.75
2004	14.96	10.52	17.00	0.36

Our preferred ADSs have been listed on the NYSE under the symbol MTL PR since May 2010. In April 2011, our preferred shares were admitted to trading without listing on RTS and MICEX. Our preferred shares were included in the quotation list A-1 on MICEX in July 2011. In December 2011, RTS ceased to exist as a result of accession to CJSC MICEX, now Moscow Exchange, and our preferred shares were excluded from the list of securities admitted to trading without listing on RTS. Starting from December 2011, our preferred shares were traded in the quotation list A-1 on MICEX. Since June 2014, our preferred shares have been trading on the MICEX Level 1 quotation list. The change is associated with the Moscow Exchange's new listing rules which came into effect on June 9, 2014. Level 1

includes securities that were on the A-1 and A-2 quotation lists before this date. Each preferred ADS represents one-half of a preferred share.

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The following table sets forth the high and low closing prices per preferred ADS and preferred share for: (1) the most recent seven months; (2) the most recent nine quarters; and (3) all years following the public offering in 2010.

	Preferred ADSs		Preferred Shares	
	High	Low	High	Low
	(In U.S. dollars)			
April 2016	0.29	0.23	0.66	0.58
March 2016	0.26	0.23	0.59	0.58
February 2016	0.26	0.20	0.57	0.54
January 2016	0.29	0.20	0.51	0.46
December 2015	0.35	0.26	0.64	0.57
November 2015	0.30	0.27	0.67	0.61
October 2015	0.30	0.25	0.67	0.64
First Quarter 2016	0.29	0.20	0.59	0.46
Fourth Quarter 2015	0.35	0.25	0.67	0.64
Third Quarter 2015	0.38	0.20	0.89	0.54
Second Quarter 2015	0.42	0.35	0.94	0.86
First Quarter 2015	0.46	0.09	1.03	0.30
Fourth Quarter 2014	0.14	0.08	0.33	0.17
Third Quarter 2014	0.36	0.09	0.74	0.23
Second Quarter 2014	0.38	0.31	0.84	0.66
First Quarter 2014	0.47	0.30	1.09	0.55
2015	0.46	0.09	1.03	0.30
2014	0.47	0.08	1.09	0.17
2013	2.23	0.39	4.11	1.01
2012	4.91	1.92	11.82	3.86
2011	11.27	3.24	8.99	6.15
2010	9.66	6.60	n/a	n/a

Item 10. Additional Information**Charter and Certain Requirements of Russian Legislation**

We describe below our registered common and preferred shares, the material provisions of our charter in effect on the date of this document and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter, which is included as an exhibit to this document, to review its complete terms. The description of our charter is qualified in its entirety by reference to the charter.

Our Purpose

Article 4.1 of our charter provides that our primary purpose is to earn profit, as well as to provide the highest-quality products and services for our customers.

Description of Capital Stock*General*

Pursuant to our charter, as amended, we have the right to issue registered common shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our capital stock currently consists of 555,027,660 shares, including 416,270,745 common shares, each with a nominal value of 10 rubles, and 138,756,915 preferred shares, each with a nominal value of 10 rubles, all of which are fully paid, issued and outstanding under Russian law. Under Russian legislation, charter capital refers

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to the aggregate nominal value of the issued and outstanding shares. We are authorized to issue an additional 81,698,341 common shares with a nominal value of 10 rubles each. None of our capital stock is under option or agreed conditionally or unconditionally to be put under option. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (i.e., they are considered outstanding shares), and we are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or Board of Directors, provided that such disposals are not major or interested party transactions. Currently, our wholly-owned subsidiary Skyblock Limited holds 55,502,766 preferred shares. The shares are considered issued and outstanding shares under Russian law and have all the rights attaching to other preferred shares. The preferred shares owned by Skyblock Limited are not considered outstanding for purposes of our IFRS financial statements.

Currently, we have more than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint-Stock Companies Law, as described below.

A resolution of our Board of Directors dated May 14, 2008 approved an increase in our charter capital through the issuance of 55,000,000 preferred shares with a nominal value of 10 rubles. On September 19, 2008, our Board of Directors amended its resolution to increase the number of preferred shares being issued to 138,756,915 preferred shares which is the maximum number of preferred shares authorized by our charter. The decision to issue 138,756,915 preferred shares was registered with the FFMS on October 23, 2008. On April 2, 2009, we placed all 138,756,915 of the preferred shares authorized for issuance at the placement price of 10 rubles per share. All the preferred shares were taken up by our wholly-owned subsidiary Skyblock Limited, which was the sole offeree. A report on the placement of the preferred shares was registered with the FFMS on April 14, 2009. We transferred 83,254,149 preferred shares to the sellers of 100% of the shares and interest of Bluestone Industries, Inc., Dynamic Energy, Inc. and JCJ Coal Group, LLC and certain other companies as part of the consideration in our acquisition of the Bluestone. Our preferred shares are not convertible into common shares, bonds or other securities of Mechel.

Rights attaching to common shares

Holders of our common shares have the right to vote at general shareholders' meetings. As required by the Joint-Stock Companies Law and our charter, all of our common shares have the same nominal value and grant to their holders identical rights. Each fully paid common share, except for treasury shares, gives its holder the right to:

freely transfer the shares without the consent of other shareholders or the company;

receive dividends in accordance with our charter and current legislation;

participate in general shareholders' meetings and vote on all matters of shareholders' competence;

transfer voting rights to its representative on the basis of a power of attorney;

elect and be elected to the governing and controlling bodies of the company;

if holding, alone or with other holders, 2% or more of the voting stock, within 45 days after the end of our fiscal year, make proposals to the agenda of the annual general shareholders meeting and nominate candidates to the board of directors, review commission and counting commission;

if holding, alone or with other holders, 10% or more of the voting stock, demand that the board of directors call an extraordinary general shareholders meeting or an unscheduled audit by our review commission or an independent auditor;

demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:

our reorganization;

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conclusion of a major transaction, as defined under Russian law;

amendment of our charter or approval of a new version of our charter that restricts the holder's rights;
and

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

upon liquidation, receive a proportionate amount of our property after our obligations to our creditors are fulfilled;

have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents and minutes of meetings of the collegial executive body (Management Board); and

exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of general shareholders' meetings approved in accordance with its competence.

Rights attaching to preferred shares

Pursuant to our charter, as amended, all of our preferred shares have the same nominal value and grant to their holders identical rights. Each fully paid preferred share gives its holder the right to:

freely transfer preferred shares without the consent of other shareholders;

receive dividends in accordance with our charter and current legislation;

upon liquidation, receive a portion of our liquidation value, which is equal to a portion of our assets calculated pro rata to the portion represented by one preferred share in our charter capital;

have access to certain company documents and receive copies for a reasonable fee;

transfer all or part of the rights attached to the preferred shares to its representative on the basis of a power of attorney; and

participate in shareholders' meetings and vote on the following matters:

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

any amendment of our charter or approval of a new version of our charter that restricts the preferred shareholders' rights, including determination or increase of a dividend amount and/or determination or increase of the liquidation value paid on preferred shares of previous priority, as well as provision to preferred shareholders of other advantages in the payment of dividends and/or the liquidation value of shares;

participate in shareholders' meetings and vote on all matters on which common shareholders are entitled to vote if for any reason the annual shareholders' meeting did not adopt a resolution to pay the full amount of dividends to which preferred shareholders are entitled under our charter. The holders of preferred shares enjoy this right effective from the first shareholders' meeting to be held after the relevant annual shareholders' meeting and until the date when dividends on preferred shares are paid in full;

filing of an application with a stock exchange for listing or delisting of our preferred shares; and

in other cases provided for in the applicable laws of the Russian Federation.

Table of Contents***Pre-emptive rights***

The Joint-Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase additional shares or securities convertible into shares issued by way of open subscription in an amount proportionate to their existing holding of shares of the same category as the newly issued shares. In addition, the Joint-Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to placement of shares or securities convertible into shares through a closed subscription among existing shareholders only, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing holdings. We must publish a notice of the proposed placement of shares or provide shareholders with such notice in writing at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. In case the price of shares or the procedure for determining the price of shares is to be approved by the board of directors not later than the beginning of placement period, the term for exercising the pre-emptive rights may be shortened to 20 days, or even to eight business days if the notice of the proposed placement of shares is subject to disclosure under Russian law.

Dividends

The Joint-Stock Companies Law and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. Shareholders may decide on whether or not to pay the dividends upon results of a reporting quarter, half a year, nine months and/or year. Dividends are recommended to a general shareholders meeting by the board of directors, and approved by the general shareholders meeting by a majority vote. A decision on quarterly dividends may be taken at a general shareholders meeting within three months of the end of the respective quarter; a decision on annual dividends must be taken at the annual general shareholders meeting. A decision on payment of dividends for common shares can be taken only after the decision on payment of dividends for preferred shares is taken. The dividend approved at the general shareholders meeting may not be more than the amount recommended by the board of directors. The date on which in accordance with the decision on payment (declaration) of dividends are determined the persons entitled to receive them, cannot be earlier than 10 days from the date of the decision to pay (declare) dividends and later than 20 days from the date of such decision. Dividends are not paid on treasury shares. Dividend payment period to a nominal holder and a trustee who is a professional participant of the securities market, which are registered in the register of shareholders, shall not exceed 10 business days, and to other persons registered in the register of shareholders shall not exceed 25 business days from the date on which the persons entitled to receive dividends are defined. A shareholder who is entitled to the declared dividends but has not received them due to the fact that the company or the registrar has no exact and necessary address information or bank details, or in connection with the other creditor's delay, has a right to make a claim to the company for the unpaid dividends within three years from the date of the decision on their payment. Upon the expiration of this three year period, declared and unclaimed dividends are restored in retained earnings of the company and the obligation on their payment terminates.

Starting from January 1, 2014, a new cascade dividend payment mechanism is introduced with respect to shares recorded on custodians' account as opposite to the shareholders' register. The cascade payment mechanism provides that Russian issuers will pay dividends to custodians and depositary banks, who in turn will be obliged to further transfer dividends to shareholders. Under the new regime no disclosure will be required by ultimate beneficial owners in order to receive dividends. See also Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market Upon introduction of a new system of recording the depositary's rights to the shares underlying depositary receipts, the depositary is required to disclose information on ADS and GDS owners in order to exercise voting rights and receive dividends with respect to the shares underlying ADSs and GDSs.

The Joint-Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

the charter capital of the company has been paid in full;

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the value of the company's net assets on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;

the company has repurchased all shares from shareholders who demanded repurchase; and

the company is not, and would not become, insolvent as the result of the proposed dividend payment. Pursuant to our charter, as amended, we may calculate the dividends for preferred shares on the basis of our consolidated financial statements prepared under accepted international accounting standards which we apply for the relevant accounting period, including IFRS and U.S. GAAP. The annual fixed dividend for one preferred share amounts to 20% of our net profit under our annual consolidated financial statements prepared in accordance with the applicable international accounting standards and audited by an independent auditor, divided by 138,756,915, and is declared and paid subject to sufficiency of the company's net profit for those purposes.

For the purpose of calculating the amount of dividends for preferred shares, we convert our net profit under our annual consolidated financial statements prepared in accordance with the applicable international accounting standards into rubles using the official exchange rate of the CBR as of the date the board of directors decides to recommend the amount of dividends for the preferred shares.

If the dividend to be paid for one common share exceeds the dividend to be paid for one preferred share for the same year, we must increase the dividend to be paid for one preferred share up to the amount of dividend to be paid for one common share. For this purpose, if the nominal value of our common shares has changed (e.g., through a share split), the dividend to be paid for one common share is calculated as if its nominal value has not changed. If dividends for common shares are to be paid in kind, the monetary value of such payment must be determined by the Board of Directors involving an independent appraiser.

Distributions to shareholders on liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint-Stock Companies Law and our charter allow us to be liquidated:

voluntarily, by a three-quarters majority of the voting stock present at a general shareholders' meeting; or

involuntarily, by a court order.

Following a decision to liquidate the company, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a general shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but which may not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

individuals owed compensation for injuries or deaths;

payments related to disbursement of accrued vacation pay and wages of persons currently or formerly employed under an employment agreement and remuneration to owners of intellectual property rights;

federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and

other creditors in accordance with Russian legislation.

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Claims of creditors in connection with obligations secured by a pledge of the company's property (**secured claims**) are satisfied out of the proceeds of the sale of the pledged property prior to claims of any other creditors except for the creditors of the first and second priorities described above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth priority creditors as described above.

The Joint-Stock Companies Law and our charter provide for the following order of priority for distribution of remaining assets after settlement with creditors:

payments to repurchase shares from shareholders having the right to demand repurchase;

payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, as amended; and

payments to holders of common and preferred shares.

Liability of shareholders

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 a 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 called an effective parent. The entity whose decisions are capable of being so determined is called an effective subsidiary. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in course of 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 binding instructions or consent for a transaction to the effective subsidiary based on the above-mentioned decision-making capability.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective subsidiary. Accordingly, a shareholder will not be personally liable for our debts or those of our effective subsidiaries unless such shareholder controls our business and the conditions set forth above are met. See Risk Factors Legal risks and uncertainties Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the fault of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case regardless of how the effective parent's capability to determine decisions of the effective subsidiary arises, for example, whether through ownership of voting securities or by

contract. If the effective subsidiary is a joint-stock company, the effective parent has secondary liability only if the effective parent has caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency or bankruptcy of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent may be held secondarily liable if the effective subsidiary's insolvency is caused by the willful misconduct or negligence of such effective parent and if the effective subsidiary's assets are insufficient to cover its obligations. To be relieved from the liability, the effective parent would need to prove before the court that it acted in good faith and in the interests of the effective subsidiary.

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Shareholders of an effective subsidiary that is a joint-stock company may also claim compensation for the effective subsidiary's losses from the effective parent if: (1) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (2) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Members of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its willful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Russian law also provides for other cases in which shareholders may be held liable to us.

Charter capital increase

We may increase our charter capital by:

issuing additional shares, or

increasing the nominal value of already issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting more than 25% of the number of issued common shares, requires a three-quarters majority of the voting stock present at a general shareholders' meeting. A decision to increase the charter capital by increasing the nominal value of issued shares requires a majority of the voting stock present at a general shareholders' meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority of the voting stock present at a general shareholders' meeting.

The Joint-Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value, except in limited circumstances where: (1) existing shareholders exercise a pre-emptive right to purchase shares at the price which is not more than 10% lower than the price paid by third parties, or (2) fees of up to 10% are paid to intermediaries. The price may not be set at less than the nominal value of the shares. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint-stock company. These procedures require:

taking a decision on share placement and approving the resolution on share issuance;

registration of a share issuance with the CBR;

following the placement of the shares, registration and filing with the CBR of a report or a notice (as applicable) on results of share issuance and its public disclosure; and

public disclosure of information relating to the share issuance.

Charter capital decrease

The Joint-Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for a public joint-stock company. The Joint-Stock Companies Law and our charter require that any decision to reduce our charter capital, whether through a repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made at a general shareholders meeting.

The Joint-Stock Companies Law allows a company to reduce its share capital only if, at the time of such reduction:

its share capital is paid up in full;

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the company is not, and would not become, as a result of the payment to, or the modification of the securities of, the shareholders, as described above, insolvent;

the value of its net assets is not less (and would not become less, as a result of the payment or the modification of the securities to the shareholders) than the sum of its share capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares;

the company has repurchased all shares from shareholders that have the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described below;

the company has fully paid all declared dividends; and

the company complies with other requirements of Russian legislation.

In addition, within three business days after taking the decision to reduce our charter capital, we must notify this decision to the authority which carries out state registration of legal entities and publish this decision twice with a monthly interval. Within 30 days of the latest of such publications, our creditors, whose claim rights had occurred prior to the publication, would then have the right to accelerate our indebtedness and to demand reimbursement of applicable damages.

Share buy-back

Under the Joint-Stock Companies Law, our board of directors is entitled to decide on the acquisition of our shares representing up to 10% of our charter capital. The repurchased shares must be resold at a value not less than a market value within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. Repurchased shares do not bear voting rights.

The Joint-Stock Companies Law allows us to repurchase our shares only if:

our charter capital is paid in full;

we are not and would not become, insolvent as a result of the repurchase;

the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and

we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with Russian law, as described immediately below.

The Joint-Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares if the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

reorganization;

conclusion of a major transaction, as defined under Russian law;

amendment of our charter or approval of a new version of our charter in a manner which restricts shareholders' rights; or

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

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A shareholder demanding repurchase must send to us a written request within 45 days following the date when the relevant decision of the general shareholders' meeting is taken. We must purchase the shares of the demanding shareholder within 30 days following the expiration of the above 45-day period. We may spend up to 10% of our net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

A shareholders' decision on filing of an application for delisting of our shares enters into effect if the consideration to be paid for the repurchase of shares does not exceed 10% of our net assets.

Registration and transfer of shares

Russian legislation requires that a joint-stock company maintain a register of its shareholders which, for a public joint-stock company, shall be maintained by a registrar. Ownership of our shares is evidenced solely by entries made in such register. Any of our shareholders registered in a register may obtain an extract from our register certifying the number of shares that such shareholder holds. Since July 2014, our shareholder register has been maintained by Computershare Registrar JSC which was renamed to Independent Registrar Company JSC in October 2015.

The purchase, sale or other transfer of shares is accomplished through the registration of such transfer in the shareholder register, or the registration of such transfer with a depository if shares are held and recorded by a depository. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register or with a depository. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed except in certain instances provided for by Russian legislation, and may be challenged in court.

The Federal Law No. 414-FZ On the Central Depository dated December 7, 2011 (the **Central Depository Law**), which came into force on January 1, 2012, set out a legal framework for establishment and operation of the central depository. On November 6, 2012, the FFMS granted NSD the status of central depository which opened its nominal holder accounts in, among others, all securities registers of the issuers which are obliged to disclose information in accordance with Russian securities law. As we are required to make public disclosures, the above requirement is applicable to us, which means that the central depository became the only person having a nominal holder account in our share register. Also, the Central Depository Law prohibits persons maintaining securities registers from opening and depositing securities (save for limited exceptions) to other nominal holder accounts from the date of the opening of a nominal holder account with the central depository.

Reserve fund

Russian legislation requires that each joint-stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our statutory net profits until the reserve fund has reached the 5% requirement.

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Disclosure of Information

Under Russian legislation, disclosure of information on the securities market means making it available to all interested parties, regardless of the purpose of obtaining this information. We are required to make the following periodic public disclosures and filings in the newswire of authorized information agency Interfax (www.e-disclosure.ru), on our websites at www.mechel.ru and www.mechel.com, as well as on the webpage provided by authorized information agency Interfax (www.e-disclosure.ru/portal/company.aspx?id=1942):

disclosure of quarterly reports containing information about us, our shareholders, registrar and depository, the structure of our management bodies, the members of the board of directors, management board and review commission, our branches and representative offices, our subsidiaries and affiliates, our shares, bank accounts and auditors, important developments during the reporting quarter, quarterly accounting statements prepared in accordance with Russian accounting standards, and other information about our financial and business activity;

disclosure of any information concerning material facts and other official disclosures, including, among other things, our reorganization; certain changes in the amount of our assets; decisions on share issuances; certain changes in ownership and shareholding; information about controlled organizations which are material to us or organizations controlling us, reorganization, liquidation or bankruptcy of such organizations; conclusion of agreement with our controlled or controlling organization, where we are required to buy securities issued by such controlled or controlling organization; as well as shareholder and management bodies resolutions;

notifying MICEX about the disclosure of aforementioned information;

disclosure of the documents that we have received in connection with any of the following:

a voluntary offer (including any competing offer) to acquire us;

a mandatory offer (including any competing offer) to acquire us;

a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of our common shares; and

a request that minority shareholders sell their shares to the person that has acquired more than 95% of our common shares;

disclosure of information on various stages of securities placement, issuance and registration through publication of certain data as required by the securities legislation;

disclosure of our charter and internal corporate governance documents;

disclosure of our annual report and annual financial statements prepared in accordance with Russian accounting standards and our annual and interim U.S. GAAP/IFRS financial statements;

disclosure on a quarterly basis of a list of our affiliated companies and individuals;

disclosure of a list of information which is considered an insider information and approved by the company (**insider information**);

disclosure of insider information; and

disclosure of other information as required by applicable Russian securities legislation.

General Meetings of Shareholders

Procedure

A general shareholders meeting may exercise only the powers that are set forth in the Joint-Stock Companies Law and in our charter. Among the issues which our shareholders have the exclusive power to decide are:

approval of charter amendments or of a new version of the charter;

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reorganizations or liquidations;

election and early removal of the members of the board of directors;

determination of the number, nominal value and type of authorized shares and rights granted by such shares;

changes in the company's charter capital;

appointment and early removal of the members of our review commission and counting commission;

approval of our independent auditor;

approval of certain interested party transactions (the value of which is 2% or more of the balance sheet value of the company's assets) and major transactions (the value of which is more than 50% of the balance sheet value of the company's assets);

distribution of profits and losses, including approval of dividends payment;

decisions on our participation in commercial or industrial groups or other associations of commercial entities;

redemption by the company of issued shares in cases provided for by the Joint-Stock Companies Law;

approval of certain internal documents regulating the activity of our governing bodies;

decision on filing of an application for delisting of our shares or securities convertible into shares; and

other issues, as provided by the Joint-Stock Companies Law and our charter.

Voting at a general shareholders' meeting is generally carried out on the principle of one vote per voting share, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority of the voting stock present at a general shareholders' meeting. However, Russian law requires a three-quarters majority of the voting stock present at a general shareholders' meeting to approve the following:

approval of charter amendments or of a new version of the charter;

reorganizations or liquidations;

determination of the number, nominal value and category (type) of authorized shares and the rights granted by such shares;

repurchase by the company of its issued shares;

any issuance of shares or securities convertible into common shares by closed subscription;

issuance by open subscription of common shares or securities convertible into common shares, in each case, constituting 25% or more of the number of issued and outstanding common shares;

approval of a major transaction the subject matter of which is property with the value exceeding 50% of the balance sheet value of the company's assets; and

decision on filing of an application for delisting of our shares or securities convertible into shares.

A resolution of the shareholders' meeting to apply for listing or delisting of our preferred shares requires a three-quarters majority vote of the voting common stock present at the meeting and a three-quarters majority vote of the total preferred stock. The Joint-Stock Companies Law provides that a charter may require a larger number of the votes for passing such resolution.

The quorum requirement for our general shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

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The annual general shareholders meeting must be convened by the board of directors and be held between March 1 and June 30 of each year, and the agenda must include the following items:

election of the members of the board of directors and review commission;

approval of distribution of profits, including approval of annual dividends and losses, if any; and

appointment of an independent auditor.

A shareholder or group of shareholders owning in the aggregate at least 2% of the outstanding voting shares may introduce proposals for the agenda of the annual general shareholders meeting and may nominate candidates to the board of directors, general director, the review commission and counting commission. Any agenda proposals or nominations must be provided to the company not later than 45 days after the preceding calendar year ends.

Extraordinary general shareholders meetings may be called either by the board of directors on its own initiative, or at the request of the review commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general shareholders meeting may be held in a form of a meeting or by an absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general shareholders meeting through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders meeting by absentee ballot contemplates the determination of shareholders opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders meeting by absentee ballot:

election of directors;

election of the review commission; and

approval of a company's independent auditor for statutory accounts.

If the number of shareholders exceeds 1,000 persons, the voting ballots, which must be used when conducting a general shareholders meeting in form of a meeting in a joint-stock company, must be sent to the shareholders entitled to participate in the general shareholders meeting at least 20 days in advance of the general shareholders meeting.

Notice and participation

All shareholders entitled to participate in a general shareholders meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, not less than 30 days prior to the date of the meeting, and

such notification shall specify the agenda for the meeting. However, if it is an extraordinary general shareholders meeting to elect the board of directors or it is a general shareholders meeting to elect the board of directors of a reorganized company, shareholders must be notified at least 50 days prior to the date of the meeting (according to our charter and amendments to the Russian law effective from July 1, 2016). Under our charter, we may either provide notice by mail or deliver notice with the acknowledgement of receipt to each of our shareholders or publish a notice in *Rossiyskaya Gazeta*, an official newspaper founded by the Russian government, or on our website stated in the charter. Only those items that were set out in the agenda may be voted upon at a general shareholders meeting. We may also publish a notice of the meeting on our website stated in the charter. In addition, nominal holders included in the shareholder register will be notified of the shareholders meeting by way of an electronic communication and will be required to convey such information to the depositors within a prescribed period.

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Under our charter and in accordance with amendments to the Russian law (effective from July 1, 2016), we may notify shareholders of a meeting by sending an electronic message to the email address of a shareholder, as well as by sending the text message containing the procedure for reviewing the notice of the general meeting of shareholders at the contact phone number or email address of a shareholder.

Under our charter and in accordance with amendments to the Russian law (effective from July 1, 2016), the list of shareholders entitled to participate in a general shareholders meeting is compiled on the basis of the data in our shareholder register on the date established by the board of directors, which date may neither be earlier than 10 days from the date of adoption of the resolution to hold a general shareholders meeting nor more than 20 days before the date of the meeting (or, in the case of an extraordinary general shareholders meeting to elect the board of directors, not more than 55 days before the date of the meeting).

The right to participate in a general shareholders meeting may be exercised by a shareholder as follows:

by personally participating in the discussion of agenda items and voting thereon;

by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;

by absentee ballot; or

by delegating the right to fill out the absentee ballot to an authorized representative.

The Federal Law No. 415-FZ also sets forth new obligations for a depositary to disclose information on depositary receipt owners in order to exercise voting rights with respect to the shares represented by depositary receipts. The regulation setting forth the requirements for the provision of information was approved by the Order of the FFMS dated February 5, 2013. Information about the depositary receipt owners is provided to the issuer in the form of a list of persons who exercise the rights under the depositary receipts. The list is provided to the issuer by the foreign depositary which opens the depo account of depositary programs. The list is provided for the preparation and holding of a shareholders meeting. See also Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market Upon introduction of a new system of recording the depositary's rights to the shares underlying depositary receipts, the depositary is required to disclose information on ADS and GDS owners in order to exercise voting rights and receive dividends with respect to the shares underlying ADSs and GDSs.

Board of Directors

The Joint-Stock Companies Law and our charter provide that our entire board of directors is up for election at each annual general shareholders meeting and that our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder has a number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the members of the board of directors may be removed as a group at any time without cause by a majority of the voting stock present at a general shareholders meeting.

The Joint-Stock Companies Law requires at least a five-member board of directors for all joint-stock companies, at least a seven-member board of directors for a joint-stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint-stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. Members of the management board are not permitted to constitute more than 25% of the members of the board of directors. The actual number of directors is determined by the company's charter or decision of the general shareholders' meeting. Our charter provides that our board of directors shall consist of nine members, and the majority of our directors shall be independent.

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The Joint-Stock Companies Law prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. Our board of directors has the power to direct the general management of the company, and to decide the following issues:

determination of our business priorities and their significant change, including approval of our annual and quarterly budgets;

convening of annual and extraordinary general shareholders' meetings, except in certain circumstances specified in the Joint-Stock Companies Law;

approval of the agenda of the general shareholders' meeting and determination of the record date for shareholders entitled to participate in a general shareholders' meeting;

placement of our additional shares in which convertible preferred shares are converted provided that it will not result in charter capital increase, and placement of our bonds and other securities, except for the shares;

determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint-Stock Companies Law;

repurchase of our shares, bonds and other securities in certain cases provided for by the Joint-Stock Companies Law;

appointment of the general director and members of the management board, and early termination of their powers and the establishment of their compensation;

recommendation to the general shareholders' meeting on the amount of a dividend and the payment procedure thereof;

recommendation on the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;

the use of our reserve fund and other funds;

the creation and liquidation of branches and representative offices;

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approval of internal documents, except for those documents whose approval falls within the competence of the company's shareholders or general director or the management board;

approval of major and interested party transactions in the cases provided for by the Joint-Stock Companies Law;

approval of the procedures of internal control over financial and business operations of the company;

control over establishment of the risk management system;

increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstance specified in our charter;

approval of decisions on securities issuances and of the prospectus relating to such securities issuances, as well as of reports on the results of such securities issuances;

approval of our share registrar;

decision on filing of an application for delisting of our shares or securities convertible into shares;

decision on alienation by the company of treasury and quasi-treasury shares, as well as determination of the procedure for alienation of such shares;

approval of financing transactions, as defined in our charter;

conclusion of transactions exceeding 5% of the balance sheet value of the company's assets according to accounting statements on the last reporting date;

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approval of our annual report and annual financial statements; and

other issues, as provided for by the Joint-Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. A board meeting is considered duly assembled and legally competent to act when at least five directors, including at least one independent director, are present, except for cases when in accordance with our charter decisions at a board meeting are being taken unanimously.

Management Board

In June 2011, an annual general shareholders meeting approved a new version of the Bylaw on the Collegial Executive Body (Management Board). Pursuant to the Bylaw, the management board engages in discussions regarding important corporate issues within its powers and makes recommendations to our board of directors. The management board operates on the basis of our charter and applicable internal regulations. The management board's size is defined by the board of directors (and, with respect to a public joint-stock company, must not contain fewer than five members), and it is comprised of senior management of Mechel and our subsidiaries, with each member of the management board elected by the board of directors. A meeting of the management board is quorate if at least half of its members participate in the meeting.

The management board decides on the following issues, among others:

developing and submitting to the board of directors long-term plans for the implementation of the company's priorities and proposals regarding its development strategy;

reporting to the board of directors on the realization of investment projects in the amount of more than \$30 million;

developing and submitting to the board of directors investment projects in the amount of more than \$50 million;

submitting to the board of directors proposals on bonds placement and acquisitions;

submitting to the board of directors proposals on participation (obtaining or increasing participation) or giving up (reducing) our participation in other entities;

approving annual and long-term investment programs;

approving transactions related to disposals by the company of capital assets with a value of between 10% to 25% of the balance sheet assets of the company;

making certain decisions regarding the exercise of our rights as a shareholder or a participant of other entities;

making recommendations on certain matters relating to the management of our affiliates included in the list approved by our management board;

developing and establishing methods of compensation and monetary motivation for our employees; and

other issues related to our day-to-day business referred to the management board by its chairman, the board of directors or by a shareholder holding not less than 10% of our voting shares.

General Director

The general director (also referred to in this document as chief executive officer) is our sole executive body and manages our current operations within its powers and organizes the implementation of resolutions of our general shareholders' meeting and the board of directors. The general director acts on our behalf without a power of attorney and has the following rights and responsibilities:

performing the routine management of our operations;

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exercising the right of first signature on financial documents;

managing our property to provide for our current operations within the limits established by our charter and prevailing Russian legislation within its powers;

representing our interests both in Russia and abroad;

approving staff, executing labor contracts with our employees and rewarding and disciplining employees;

entering into transactions on our behalf within its powers;

issuing powers of attorney on our behalf;

opening and closing our bank accounts;

organizing our accounting and reporting process;

issuing orders and instructions binding on all our employees;

organizing the implementation of resolutions of our general shareholders' meeting and our board of directors; and

performing other functions necessary to achieve our aims and to provide for our normal operations, in compliance with prevailing legislation and our charter, except for the functions laid upon our other management bodies by the Joint-Stock Companies Law and our charter.

The general director is appointed by the board of directors for a period of one year. The term of office runs from the time of his appointment until such time as a general director is appointed by the board of directors one year later. The general director may be re-appointed an unlimited number of times.

The general director may on his own initiative renounce his powers at any time by written notice to the board of directors. The authority of the general director may be terminated before the expiration of his term of office by a resolution of the board of directors on the following grounds:

failure to comply with the requirements of our charter, resolutions of the general shareholders' meeting or the board of directors or our internal documents;

in the cases stipulated by the employment agreement with the general director; and

in other events provided by current legislation.

Upon resolution of the general shareholders' meeting, the authority of the sole executive body may be vested in a commercial organization (a **managing organization**) or an individual entrepreneur (a **manager**) on a contractual basis. Under the Civil Code, if the authority of a company's sole executive body has been vested in a managing organization or a manager, the company exercises its legal rights and assumes its legal obligations through such managing organization or manager. A resolution to transfer the authority of a company's sole executive body to a managing organization or a manager shall be passed by the general meeting of shareholders only upon recommendation of the board of directors of the company.

Our general director is required under Russian law to disclose information on his holdings of our securities and on sales and/or purchases of our securities.

Role of the Review Commission

The review commission exercises control over our financial and business operations.

On the basis of the results of its examination of our financial and business operations, the review commission prepares opinions, which contain the following:

confirmation of the reliability of the data contained in our reports and other financial documents; and

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information on any identified cases of violations of accounting and reporting procedures stipulated by Russian legislation and violations of Russian legislation identified in financial and business operations. Upon a request from the review commission, the general director and members of the board of directors, the management board and the liquidation commission must undertake to make available documents pertaining to our financial and business operations. The review commission is entitled to request that an extraordinary general shareholders meeting be convened in accordance with the procedure provided by our charter.

The review commission is elected by our general shareholders meeting for a period of one year and consists of three persons. Shares owned by members of our board of directors or persons holding positions in our management bodies cannot participate in the voting, when members of the review commission are elected. The term of office of the review commission runs from the moment it is elected by the shareholders to the moment it is elected or re-elected by the next annual general shareholders meeting. The authority of individual members or the whole review commission may be terminated before the expiration of the term of office thereof by a resolution of the general shareholders meeting on the grounds and in compliance with the procedure stipulated by our internal documents. If the number of members of the review commission falls to less than half of the required membership thereof, the board of directors must convene an extraordinary general shareholders meeting to elect a new review commission. The remaining members of the review commission continue to perform their functions until a new review commission is elected.

A shareholder or any person proposed by a shareholder may become a member of the review commission. A member of the review commission cannot simultaneously be a member of the board of directors, a member of the liquidation commission, the general director or a member of the management board. The review commission elects its chairman and secretary from within its members.

The general shareholders meeting determines remuneration and compensation of expenses to the members of the review commission.

Interested Party Transactions

Under the Joint-Stock Companies Law, certain transactions defined as interested party transactions require approval by disinterested directors or shareholders of the company. Interested party transactions include transactions involving a member of the board of directors, a member of a collegial executive body of the company, a person or entity that performs the functions of a sole executive body, any person that owns, together with its affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person, and/or that person's spouse, parents, children, adoptive parents or children, blood or non-blood brothers and sisters or affiliates, is/are:

a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

the owner (the various or in the aggregate) of at least 20% of the issued voting shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or

a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of any management body of a management organization of such a company.

The Joint-Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. An independent director is a person who is not, and within the year preceding the decision was not, a general director, a member of any executive body of the company or its management company, a manager, or an affiliate of the company and whose sole nexus to the company is in the capacity of a

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member of the board of directors. In addition, such person's spouse, parents, children, adoptive parents or children, blood and non-blood brothers and sisters may not be a general director, a member of any executive body of the company or its management company, or a manager. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;

the transaction or a number of interrelated transactions involves the issuance, by subscription, of common shares or securities convertible into common shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's issued common shares and common shares into which issued convertible securities may be converted;

the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or

all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

the company has only one shareholder that simultaneously performs the functions of the executive body of the company;

all shareholders of the company are deemed interested in such transactions;

the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;

the transactions arise from the repurchase, whether mandatory or not, by the company of the issued shares;

the company is merging with or into another company; or

the company is required by federal legislation to enter into the transaction, and settlements under such transaction are made pursuant to fixed rate schedules and prices established by appropriate state authorities. For information on certain risks relating to interested party transactions see Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry 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.

Major Transactions

The Joint-Stock Companies Law defines a major transaction as a transaction, or a number of related transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards as of the latest reporting date preceding the transaction, with the exception of

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transactions completed in the ordinary course of business or transactions involving the placement of common shares or securities convertible into common shares by means of subscription (disposal) or transactions to be executed by the company pursuant to the federal laws and/or other regulations of the Russian Federation and priced in accordance with the regulations of the Russian government or other federal bodies authorized by the Russian government. Major transactions involving property ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a majority of the voting stock present at a general shareholders meeting. Major transactions involving property in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority of the voting stock held by shareholders present at the general shareholders meeting.

For information on our largest shareholders potential ability to approve major transactions see Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry The concentration of our shares with our largest shareholders will limit your ability to influence corporate matters and transactions with largest shareholders may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm's length transactions.

Change in Control

Anti-takeover protection

Russian legislation requires the following:

A person intending to acquire more than 30% of the total number of a public company's common shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates), will be entitled to make a public offer to other holders of such shares or securities convertible into such shares pursuant to the requirements of the Joint-Stock Companies Law (the **voluntary offer**).

A person that has acquired more than 30% of the total number of a public company's common shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates) will be required to make, within 35 days of such shares being recorded in the name of such person or the moment when the person learnt, or should have learnt that it individually or together with its affiliates owned the relevant number of the shares, a public offer for other shares of the same class and for securities convertible into such shares (the **mandatory offer**), at a price which is not less than (i) the price determined based on a weighted average market price of the shares and securities convertible into such shares during trading sessions on a stock exchange for the six months preceding the date when a mandatory offer was sent to the CBR; or (ii) the market price, which must be determined by an independent appraiser if the shares and securities convertible into such shares are not traded on a stock exchange or their trading history is less than six months. The public offer price may not be less than the highest price at which the offeror or its affiliates purchased or undertook to purchase the relevant shares or securities over the six month period before the offer was sent to the public company. From the moment of acquisition of more than 30% of the total number of the shares until the moment of sending of an offer to the public company, the person making the offer and its affiliates will be able to vote only 30% of the common shares and voting preferred shares of the public company (regardless of the size of their actual holdings). These rules are also applied (or reapplied) to acquisitions resulting in a person and its affiliates owning more than 50% and 75% of a public company's outstanding common shares and voting preferred shares.

A person that, as a result of such a voluntary or mandatory offer, becomes (individually or together with its affiliates) the owner of more than 95% of the total number of the public company's common shares and voting preferred shares, must buy out the remaining shares of the public company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities convertible into such shares. The price for the shares and other securities convertible into such shares should be determined

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in the manner described above for a mandatory offer, but it may not be less than (i) the price of the preceding acquisition of the public company's shares or other securities convertible into such shares under the voluntary or mandatory offer as a result of which the offeror and its affiliates acquired over 95% of the total number of the public company's common shares and voting preferred shares; or (ii) the highest price at which after the expiration date of the voluntary or mandatory offer the offeror or its affiliates acquired or undertook to acquire such shares or other securities convertible into such shares of the public company. The offeror is entitled to require the holders of the remaining shares of the public company, as well as other securities convertible into such shares, to sell such shares and other securities, provided that the offeror acquired not less than 10% of the total number of shares or other securities of the public company as a result of acceptance by other shareholders of the voluntary or mandatory offer as described above.

An offer of the kind described in the preceding three paragraphs must be accompanied by a bank guarantee of payment. Prior notice of the offer must be filed with the CBR which may order amendments to the terms of the offer (including price) in order to bring them into compliance with the requirements of the current legislation.

Once a voluntary or mandatory offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the date of receipt of a voluntary or mandatory offer by the public company until 20 days after its expiration the public company's general shareholders' meeting will have the sole power to make decisions on charter capital increase by way of issuance of additional shares within the limits of authorized shares, issuance of securities convertible into shares, including options of a public company, approval of certain transactions or a number of related transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 10% or more of the balance sheet value of the assets of a public company as determined under Russian accounting standards as of the latest reporting date preceding the transaction, with the exception of, inter alia, transactions completed in the ordinary course of business, and on certain other significant matters.

The above rules may be supplemented through rulemaking by the CBR, which may result in a broader, narrower or more specific interpretation of these rules by the governmental and judicial authorities, as well as by market participants.

Approval of the Russian Federal Antimonopoly Service

Pursuant to the Competition Law, acquisitions of voting shares of a joint-stock company, involving companies with a combined value of assets or annual revenues, exceeding a certain threshold under Russian accounting standards, which would result in a shareholder (or a group of shareholders defined under Russian law) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, or obtaining rights to determine the conditions of business activity of an entity or to exercise the authorities of its executive body must be approved in advance by the FAS. Such transactions executed between members of a group of companies may require only a subsequent notification to the FAS if prior notification about the members of the group of companies has been filed with the FAS and the information contained in this notification is still accurate as of the date of the relevant transaction and had not been changed within 30 days from the date of group's disclosure and prior to the date of the transaction's settlement. See Item 4. Information on the Company Regulatory Matters Russian Antimonopoly Regulation.

Foreign ownership

Under the Strategic Industries Law any acquisition, whether direct or indirect, by a foreign investor or its group of entities (except for the acquisition by a foreign investor controlled by the Russian Federation, the

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constituent entity of the Russian Federation and/or Russian nationals provided such Russian nationals are Russian tax residents and do not have other nationality) of a stake, or certain rights, in a Strategic Company or a Strategic Subsoil Company, as well as acquisition, ownership or use by them of property of such companies which relates to core production facilities and the cost of which is 25% or more of the balance sheet value, must be previously approved by the Governmental Commission. Under the Strategic Industries Law, acquisition of 5% or more of the charter capital of a Strategic Company by a foreign investor or its group of entities require notification of Russian authorities. The FAS is the federal executive authority for execution of control over making foreign investments in the Russian Federation. 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 and Item 4. Information on the Company Regulatory Matters The Strategic Industries Law.

The Federal Law No. 160-FZ On Foreign Investments in the Russian Federation, dated July 9, 1999, as amended (**Foreign Investments Law**), provides that any acquisition (whether direct or indirect) by a foreign state or international organization or entities controlled by them of (1) more than 25% of voting shares of a Russian company; or (2) any powers to block decisions of the management bodies of a Russian company, requires a prior approval of the Governmental Commission in accordance with the procedures set forth in the Strategic Industries Law.

Russian taxpayers (organizations and individual entrepreneurs), as well as foreign persons, registered as individual entrepreneurs in Russia, who acquire shares in a Russian joint-stock company, need to notify the Russian tax authorities within one month following such acquisition. Starting from January 1, 2015, the need to notify the Russian tax authorities occurs only if direct participation interest exceeds 10%.

Disclosure of Ownership

Under Russian law, a holder of common shares of a joint-stock company, which has a CBR registered prospectus, must notify the company and the CBR of an acquisition of 5% or more of the company's common shares or of an acquisition of the right to cast votes attached to 5% or more of the common shares by virtue of an agreement or otherwise, and of any subsequent change in the number of the common shares above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% threshold. Such notifications must be given not later than 10 days after the common shares have been transferred to such shareholder's securities account or after the acquisition of the right to cast votes attached to such common shares, whether by virtue of an agreement or otherwise.

Negative Net Assets

If the net assets of a Russian joint-stock company calculated on the basis of the Russian accounting standards as of the end of its second or any subsequent reporting year are lower than its share capital, the joint-stock company's board of directors must disclose it in the annual report. Furthermore, if the net assets of a Russian joint-stock company calculated on the basis of the Russian accounting standards as of the end of the reporting year that follows its second or any subsequent reporting year, at the end of which the net assets of such company were lower than its share capital, remain lower than its share capital, the company must decrease its share capital to the amount of its net assets or liquidate. In addition, if a Russian joint-stock company's net assets calculated on the basis of the Russian accounting standards as of the end of its second or any subsequent reporting year are lower than the minimum amount of the share capital required by law, the company must liquidate.

Moreover, if a Russian joint-stock company fails to comply with any of the requirements stated above within six months from the end of the relevant reporting year, governmental or local authorities will be able to seek involuntary liquidation of such company in court. In addition, if a Russian joint-stock company fails to comply with any of the requirements stated above within six months from the end of the relevant reporting year or decreases its share capital,

the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations owed to them and demand compensation of damages.

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In addition, if a Russian joint-stock company's net assets calculated on the basis of the Russian accounting standards are lower than its share capital by more than 25% as of the end of three, six, nine or twelve months of the reporting year that follows its second or any subsequent reporting year, at the end of which the net assets of such company were lower than its share capital, a joint-stock company is obliged to make a public disclosure of this fact. In this case, the company's creditors whose claims arose before the publication will have the right to accelerate their claims or demand early performance of the company's obligations owed to them and demand compensation of damages.

However, if a Russian joint-stock company is able to demonstrate that the creditors' rights were not violated as a result of a decrease of its share capital or a decrease of the amount of its net assets, as the case may be, and that the security provided for due performance of the company's obligations is sufficient, a court may dismiss the creditors' claims that are brought in the following cases: (1) in the event of a decrease of the share capital of the company, including when the share capital of the company must be decreased to the amount of its net assets in compliance with the requirements of Russian law; and (2) in the event the company's net assets calculated on the basis of the Russian accounting standards are lower than its share capital by more than 25% at the end of three, six, nine or twelve months of the reporting year that followed its second or any subsequent reporting year, at the end of which the net assets of such company became lower than its share capital. Moreover, the existence of negative assets, generally, may not accurately reflect the actual ability to pay debts as they come due. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum share capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum share capital required by law at the time of liquidation. See Item 3. Key information Risk Factors Legal risks and uncertainties 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.

Material Contracts

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business. The descriptions of the contracts are qualified in their entirety by reference to the relevant contracts. For more information, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants, Item 13. Defaults, Dividend Arrearages and Delinquencies and Item 8. Financial Information Litigation Debt litigation.

Credit Facility for Mechel from VTB Bank***General***

On December 27, 2010, Mechel obtained a credit line for the total amount of 10.0 billion rubles (approximately \$329.3 million) from VTB Bank to finance our general activity. In November 2011, the amount of the credit line was increased up to 13.0 billion rubles (approximately \$442.2 million).

On April 10, 2013, Mechel executed an amendment to the loan agreement increasing the amount of the facility to 40.0 billion rubles (approximately \$1.3 billion as of that date). The term of the facility was extended to five years and the covenants were amended. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to

refinance other obligations of the companies within our group (including redemption of ruble bonds).

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In May 2014, Mechel entered into an amendment to the credit facility agreement to refinance debt in the amount of 40.0 billion rubles (approximately \$711.0 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. VTB Bank also provided an additional loan for redemption of ruble bonds in the amount of up to 3.8 billion rubles (approximately \$67.3 million as of December 31, 2014). As of December 31, 2014, the facility was fully drawn.

In September 2015, Mechel signed restructuring with VTB Bank for the amount of principal and accrued compounded interest totaling 44.8 billion rubles (approximately \$614.3 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

As of December 31, 2015, Mechel had the overdue penalty in the amount of 94.7 million rubles (approximately \$1.3 million). We have requested the lender to write off the overdue penalty.

Interest rate and interest period

Interest under the credit facility is payable at the CBR key rate plus 2.35% per year until January 6, 2018; and at the CBR key rate plus 2.99% per year from January 7, 2018. The lender may increase the interest rate by 1% per year if the borrower fails to meet certain obligations under the facility.

Repayment and prepayments

The facility has a grace period until April 6, 2017 and is to be repaid in equal monthly installments. The final maturity date is April 6, 2020. Mechel may prepay the loan in full or in part subject to simultaneous compliance with certain requirements.

Guarantee

The borrower obligations under the credit facility are guaranteed by Mechel Mining, Mechel Carbon, Mechel Carbon Singapore, Mechel Trading, Yakutugol, Southern Kuzbass Coal Company, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Bratsk Ferroalloy Plant, Mecheltrans and Mechel Service.

Security

The credit facility is secured by a pledge of 37.5%+1 share of Mechel Mining, 21.66%-2 shares of Chelyabinsk Metallurgical Plant, 25%+1 share of Southern Kuzbass Coal Company, 25%-3 shares of Yakutugol, 25%+1 share of Korshunov Mining Plant and 25%+1 share of Urals Stampings Plant.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group's ratio of net borrowings to EBITDA shall not exceed 9.00:1 until December 31, 2016, 8.00:1 until December 31, 2017, 7.00:1 until December 31, 2018, 6.00:1 until December 31, 2019, 5.00:1 until December 31, 2020 and thereafter. Mechel group's ratio of EBITDA to net interest expense shall not be less than 1.25:1 until December 31, 2016, 1.50:1 until December 31, 2017, 1.75:1 until December 31, 2018, 2.00:1 until December 31, 2019, 2.25:1 until December 31, 2020 and thereafter. Financial covenants are tested

semi-annually.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults relating to other debt, as well as limitations on payment of dividends, acquisitions and disposals and non-core transactions.

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The credit facility agreement is governed by Russian law.

Credit Facilities for Southern Kuzbass Coal Company from Sberbank***General***

On October 9, 2012, Sberbank opened four credit lines to our subsidiary Southern Kuzbass Coal Company in the total amount of 24.0 billion rubles (approximately \$772.3 million) for the purpose of working capital financing. As of December 31, 2012, we had drawn 15.1 billion rubles (approximately \$497.2 million) under the credit lines. In February 2013, we drew down an additional 1.0 billion rubles. Due to the amendment in March 2013, we drew down a further 7.9 billion rubles (such drawdowns also contained a built-in cross-currency derivative instrument). As of December 31, 2013, the facilities were fully drawn. In December 2014, due to substantial depreciation of the ruble, the exchange rate threshold of 50.00 rubles per one U.S. dollar (as stipulated in the agreements) was exceeded and Sberbank converted the 20.9 billion rubles loans into U.S. dollars. As of December 31, 2015, the outstanding balance was \$678.0 million for the U.S. dollar-denominated part of the credit lines and 3.1 billion rubles for the ruble-denominated part of the credit lines.

In December 2015, Southern Kuzbass Coal Company signed settlement agreements with Sberbank making all the debt due and payable to be further assigned to Gazprombank in the amount of 31.5 billion rubles. In April 2016, Southern Kuzbass Coal Company signed new settlement agreements with Sberbank which assigned part of the principal amount to Gazprombank. The principal in the total amount of \$423.1 million (28.4 billion rubles as of April 12, 2016) and 3.1 billion rubles was assigned with \$254.9 million remaining on Southern Kuzbass Coal Company. The overdue interest on ruble-denominated and U.S. dollar-denominated debt was added to the principal outstanding in the amount of 189.4 million rubles and \$40.2 million, respectively. Part of the overdue interest and penalties remained on Southern Kuzbass Coal Company was capitalized with extended maturity similar to the principal outstanding. The rest of the overdue interest and penalties shall be paid.

As of December 31, 2015, the overdue principal amounted to \$678.0 million (approximately 49.4 billion rubles) and 3.1 billion rubles and the overdue interest amounted to \$43.1 million (approximately 3.1 billion rubles) and 192.4 million rubles.

Interest rate and interest period

Under the U.S. dollar-denominated part of the credit lines, the interest is payable monthly at 3-month LIBOR plus a margin of 7%. Starting from April 13, 2016, the payable part of interest equals to the rate of 3-month LIBOR plus a margin of 5%, with the remaining unpaid interest being capitalized and paid at the final maturity date. The level of margin being paid depends on Mechel group's ratio of total borrowings to EBITDA.

Under the ruble-denominated part of the credit lines, the interest is payable monthly at the CBR key rate plus 1.5% per year. The lender may change the interest rate on the CBR key rate plus 3.5% per year if the borrower fails to obtain similar terms with Gazprombank and VTB Bank. The payable part of interest equals to 8.75%, with the remaining unpaid interest being capitalized and paid at the final maturity date. The level of interest being paid depends on Mechel group's ratio of total borrowings to EBITDA.

Repayment and prepayments

Should we obtain similar terms with Gazprombank and VTB Bank, the final maturity date shall be extended until April 10, 2022. The debt is payable in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if

the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loans in full or in part with prior notice to the lender.

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Guarantee

The borrower's obligations under the credit facility agreements are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Chelyabinsk Metallurgical Plant, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facilities share one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group's ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreements are governed by Russian law.

Pre-Export Facility Agreements

General

On December 3, 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into an amendment agreement to the existing \$1.0 billion pre-export facility agreements (as amended and restated on December 4, 2012) with a syndicate of banks coordinated by ING Bank N.V., Société Générale and VTB Capital Plc. The amendments provide that the loan, which was entering the repayment phase in December 2013, will be repayable in equal monthly installments until December 2016 following a grace period of 12 months ending in December 2014. The terms of the facility agreements are identical in all material aspects, except for the security provided under each facility.

As of December 31, 2015, we had overdue principal in the amount of \$522.1 million (approximately 38.0 billion rubles) and overdue interest in the amount of \$52.9 million (approximately 3.9 billion rubles) under these facility agreements. We have requested the banks to restructure the repayment schedule of the facilities.

Interest rate and interest period

Interest under the facilities is payable at LIBOR plus a margin, or at fixed rate that may be agreed with the lenders. Based on results for the period ending December 31, 2012, the margin levels were reset during 2013 at 5.5% per year

and are subject to downward or upward adjustments based on the ratio of Mechel Mining's ratio of net borrowings to EBITDA. The overdue principal bears interest rate of LIBOR plus 7.5% per year.

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Repayment and prepayments

The facility is repayable in equal monthly installments after a 12-month grace period ending in December 2014. The borrowers are entitled to prepay the loan subject to 10 business days' prior notice to the syndicate of banks and certain other conditions specified in the credit facility agreements. Starting from December 2014, the borrowers have failed to pay the installments.

Guarantee

Yakutugol's obligations under the credit facility agreement are guaranteed in full by Mechel, Mechel Mining, Mechel Carbon, Mechel Carbon Singapore as well as by Southern Kuzbass Coal Company and Korshunov Mining Plant (for Southern Kuzbass Coal Company and Korshunov Mining Plant in the amount of up to 2% of the value of their total assets as determined under Russian accounting standards). Southern Kuzbass Coal Company's obligations under the credit facility agreement are guaranteed in full by Mechel, Mechel Mining, Mechel Carbon, Mechel Carbon Singapore and Yakutugol, as well as by Korshunov Mining Plant (for the latter in the amount of up to 2% of the value of its total assets as determined under Russian accounting standards). The guarantee provided by Mechel can be released subject to certain conditions.

Security

Yakutugol's obligations under the credit facility agreement are secured by a pledge of all equipment and machinery of the borrower having a balance sheet value of \$10.0 million or higher and a pledge of 15%+1 share of Yakutugol and of 10% of shares of Southern Kuzbass Coal Company. Southern Kuzbass Coal Company's obligations under the credit facility agreement are secured by a pledge of all equipment and machinery of the borrower having a balance sheet value of \$10.0 million or higher and a pledge of 15%+1 share of Southern Kuzbass Coal Company and of 10% of shares of Yakutugol.

The number of shares of each of Yakutugol and Southern Kuzbass Coal Company under pledge will be decreased from 25%+1 share to 15% if certain conditions are met. Such conditions include, among others, the ratio of Mechel Mining's net borrowings to EBITDA being less than or equal to 2.5:1, the outstanding debt under the facility not exceeding 50% of the original principal amount and there being no event of default continuing under the facility.

The obligations of each of the borrowers are also secured by the assignment of rights under their export and offtake contracts and a charge over their collection accounts.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel Mining's ratio of net borrowings to EBITDA shall not exceed 5.0:1 as of June 30, 2016. Mechel Mining's ratio of EBITDA to net interest expense shall not be less than 4.0:1 as of June 30, 2016. Mechel Mining's net borrowings shall not exceed \$4.0 billion, under the condition that Mechel Mining's ratio of net borrowings to EBITDA shall exceed 3.0:1. Mechel Mining's shareholder equity shall not fall below \$4.0 billion.

Mechel Mining may pay dividends on its common shares if its ratio of net borrowings to EBITDA is less than or equal to 3.0:1 and the aggregate amount of all dividends does not exceed 75% of Mechel Mining's net profit for the respective financial year.

Acquisitions by Mechel Mining in any given year are permitted, subject to testing of Mechel Mining's ratio of net borrowings to EBITDA as follows: (i) \$500 million payable in any financial year if Mechel Mining's ratio

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of net borrowings to EBITDA is equal to or less than 2.5:1; (ii) \$375 million payable in any financial year if Mechel Mining's ratio of net borrowings to EBITDA is between 2.5:1 and 3.0:1; (iii) \$50 million payable in any financial year if Mechel Mining's ratio of net borrowings to EBITDA is between 3.0:1 and 3.5:1; (iv) \$5 million payable in any financial year if Mechel Mining's ratio of net borrowings to EBITDA exceeds 3.5:1; and (v) any other higher amount if it is approved by the majority lenders and provided that Mechel Mining will continue to be in compliance with its financial covenants and no default is continuing or would arise as a consequence of such acquisition.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, including negative pledges and limitation on lending to third parties, as well as notice provisions and events of default, including change of control and cross-defaults relating to other debt with certain limitations.

The credit facility agreements are governed by English law.

Project Finance Credit Facility for Elgaugol from Vnesheconombank

General

On March 12, 2014, our subsidiary Elgaugol signed two credit facilities in an aggregate amount of \$2.5 billion with Vnesheconombank for the development of the Elga coal complex: (i) a facility in the amount of \$2.085 billion for the total budgeted financing necessary until commissioning (the main credit line) and (ii) a facility in the amount of \$418.7 million to be used for the repayment of the \$150.0 million bridge loan and payment of the fees and commissions associated with the main credit line and interest during the grace period (the second credit line). The facilities have a tenor of 13.5 years, including a repayment grace period of 3.5 years.

As of December 31, 2015, a total of \$20.9 million was drawn under the second credit line. Disbursement of the loan was suspended by Vnesheconombank due to our failure to fulfill conditions precedent; we intend to fulfill all conditions so as to continue disbursements. As of December 31, 2015, the overdue interest under the credit facility amounted to approximately \$415.9 thousand (approximately 30.3 million rubles). In March 2016, the overdue interest was fully repaid.

Interest rate and interest period

Main credit line: fixed rate of 7.5% per year for the first 60 months after the date of the loan agreement; and 6-month LIBOR plus 6% per year after the first 60 months.

Second credit line: fixed rate of 8% per year for the first 60 months after the date of the loan agreement; and 6-month LIBOR plus 6% per year after the first 60 months.

The interest is paid quarterly.

Repayment and prepayments

Identical for both facilities, the first principal repayment is 42 months after the date of signing of the loan agreement and takes place on a yearly basis according to a defined schedule.

Security

The facilities are secured with a pledge of 49% of shares in Elgaugol, a pledge of Elgaugol proprietary land and land lease rights, a pledge of immovable property of Elgaugol including construction in progress and a pledge over all movable property of Elgaugol with a book value over one million rubles per unit.

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Covenants and other matters

There are no guarantees and financial covenants issued in support of these facilities, except for the requirement to maintain a positive value of the borrower's net assets starting from the calendar quarter following the date of the commissioning of the facilities and ending on the date of the complete repayment of the credit.

The credit facility agreements are governed by Russian law.

***Facility Agreement for Chelyabinsk Metallurgical Plant from BNP Paribas, Gazprombank and UniCredit
Universal Rolling Mill Facility Agreement***

General

On September 15, 2010, we signed a credit facility agreement to finance the universal rolling mill installation project at our subsidiary Chelyabinsk Metallurgical Plant. The credit facility consists of three tranches underwritten by BNP Paribas S.A., Gazprombank and UniCredit. Gazprombank's tranche is \$219.4 million, BNP Paribas's tranche is 102.8 million and UniCredit's tranche is 89.2 million. The credit facility benefits from insurance coverage of the Italian, German and Chinese export credit agencies: SACE, Euler Hermes and Sinasure, respectively.

The purpose of the facility is to finance payments under two contracts: the equipment and technology supply contract executed with Danieli and the general construction contract executed with Minmetals.

As of December 31, 2015, the amount outstanding under the facility was \$154.9 million and 154.7 million (in aggregate approximately 23.6 billion rubles), with overdue principal in the amount of \$42.2 million and 33.1 million (in aggregate approximately 5.7 billion rubles). We have requested the lenders to restructure the repayment schedule of the facility.

Interest rate and interest period

Interest on the facility tranche underwritten by Gazprombank (Facility A) is payable at LIBOR plus a margin of 6.75% per year during the period until the construction completion date and at LIBOR plus a margin of 6.25% per year after that date. Interest on the facility tranche underwritten by UniCredit (Facility B) is payable at EURIBOR plus a margin of 1.50% per year. Interest on the facility tranche underwritten by BNP Paribas (Facility C) is payable at EURIBOR plus a margin of 1.60% per year.

Accrued interest is payable twice a year on payment dates January 21 and July 21.

Repayment and prepayments

The borrower must repay the tranches in 13 equal semi-annual installments in respect of Facility A; 16 equal semi-annual installments in respect of Facility B; and 16 equal semi-annual installments in respect of Facility C.

Repayment starts on the first repayment date, which means in respect of each of the tranches, the first payment date (January 21 or July 21) falling after the earlier of (a) the end of the availability period and (b) the construction completion date. The availability period under all three tranches is 30 months from the signing date. Facility A must be repaid in full after six years following the first repayment date, Facilities B and C must be repaid in full after seven and a half years following the first repayment date.

The borrower may make a pro rata prepayment of the loan with the prior written consent of the lenders. A prepayment of part of the loan must be of a minimum amount of \$10.0 million in respect of Facility A, and 10.0 million in respect of Facility B and Facility C.

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Starting from July 2014, the borrower failed to pay the installments.

Guarantee

The borrower's obligations under the credit facility agreement are guaranteed by Mechel.

Security

The borrower's obligations under the credit facility agreement are secured by a pledge of 20% of the common shares of Chelyabinsk Metallurgical Plant. The borrower has also granted security over certain of its assets, including real estate and equipment to secure its obligations.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel's ratio of net borrowings to EBITDA shall not exceed 6.3:1 as of June 30, 2016 and December 31, 2016, 6.0:1 as of June 30, 2017, 5.8:1 as of December 31, 2017 and thereafter, provided that if during any period the ratio of net borrowings to EBITDA is 3.0:1 or less, then the ratio of 3.0:1 continues to apply thereafter. Mechel's ratio of EBITDA to net interest expense shall not fall below 2.0:1 as of June 30, 2016 and thereafter. Mechel's shareholder equity shall be equal to or exceed \$3.0 billion.

Mechel may pay dividends: (i) on our common and preferred shares, provided that the ratio of Mechel's net borrowings to EBITDA does not exceed 3.0:1, and if such dividends are funded from available excess cash flow, provided that no default occurs or would occur as a result of that payment; and (ii) if dividends on our preferred shares do not exceed 20% of Mechel's net profit. If Mechel records a loss as shown in the financial statements, the amount of permitted dividends paid on our preferred shares shall be limited to 7.5 million rubles for any such financial year.

Acquisitions by members of our group are permitted if (1) such acquisitions in aggregate do not exceed (i) \$5.0 million when the ratio of our net borrowings to EBITDA exceeds 3.5:1, (ii) \$50.0 million when the ratio of our net borrowings to EBITDA is within the range of 3.0:1 – 3.5:1, (iii) \$250.0 million when the ratio of our net borrowings to EBITDA is within the range of 2.5:1 – 3.0:1, (iv) \$375.0 million when the ratio of our net borrowings to EBITDA is within the range of 2.0:1 – 2.5:1, or (v) \$500.0 million when the ratio of our net borrowings to EBITDA is 2.0:1 or less; or (2) the total amount of such acquisition is fully financed by available excess cash flow.

The borrower may not, without prior consent from the lender, enter into any amalgamation, demerger, merger or reorganization except an intra-group reorganization on a solvent basis.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by English law.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from Gazprombank

General

In April 2012, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into two separate non-revolving credit facility agreements with Gazprombank for a total amount of \$500.0 million: \$300.0 million

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was made available to Yakutugol and \$200.0 million was made available to Southern Kuzbass Coal Company, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing of short-term debt. As of December 31, 2014, the facilities were fully drawn.

In August and December 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with Gazprombank to restructure debt in a total amount of \$500.0 million, providing for an extension of the grace period until April 2020 and the final maturity until April 2022.

In January 2016, the restructuring of these credit facilities became effective. As a result of the conversion into rubles, the debt of Yakutugol amounted to approximately 22.8 billion rubles and of Southern Kuzbass Coal Company amounted to approximately 15.3 billion rubles.

As of December 31, 2015, Yakutugol and Southern Kuzbass Coal Company had overdue principal in the amount of \$100.0 million and \$66.7 million (in aggregate approximately 12.1 billion rubles) and overdue interest in the amount of \$32.2 million and \$21.4 million (in aggregate approximately 3.9 billion rubles), respectively. All overdue interest shall be repaid until the end of March 2017.

Interest rate and interest period

Starting from the effective date, the interest under the credit facilities is payable at the CBR key rate plus 1.5% per year until April 2022. The lender may change the interest rate on the CBR key rate plus 3.5% per year if the borrowers fail to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid in accordance with the principal repayment schedule.

Repayment and prepayments

The final maturity date is April 20, 2022. Repayment is to be made in equal monthly installments starting from April 4, 2020. The lender may change the final maturity date on April 20, 2020 if the borrowers fail to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. In this case repayment is to be made in equal monthly installments starting from April 4, 2017.

The borrowers may prepay the loans in full or in part with a 30 day prior notice to the lender.

Guarantee

The borrowers' obligations are guaranteed by Mechel Mining, Mechel Carbon, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel and cross guarantee between Southern Kuzbass Coal Company and Yakutugol.

Security

Yakutugol's obligations under the credit facility agreement are secured by a pledge of 25%+1 share in each of Southern Kuzbass Coal Company, Korshunov Mining Plant, Port Posiet, Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant and Urals Stampings Plant, 50%+1 share in Yakutugol and 25% in Port Temryuk, as well as 33.3% of common shares of Izhstal.

Southern Kuzbass Coal Company's obligations under the credit facility agreement are secured by a pledge of 25%+1 share in each of Southern Kuzbass Coal Company, Korshunov Mining Plant, Port Posiet and Beloretsk Metallurgical Plant, 50%+1 share in each of Yakutugol and Urals Stampings Plant and 25% in each of Port Temryuk and Bratsk Ferroalloy Plant, as well as 33.3% of common shares of Izhstal.

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In March 2016, we mortgaged the Ulak-Elga rail line under the credit facility agreements.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 in 2016, 5.5:1 in 2017, 4.5:1 in 2018, 3.5:1 in 2019 and 3.0:1 in 2020. Mechel group's ratio of EBITDA to consolidated financial expense shall not be less than 1.25:1 in 2016, 1.50:1 in 2017, 1.75:1 in 2018, 2.0:1 in 2019 and 2.5:1 in 2020. During the period from 2017 to 2020, we also have to comply with the ratios of operational cash flow to EBITDA and EBITDA to revenues at the levels of 80% and 20%, respectively.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreements are governed by Russian law.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from Gazprombank

General

In April 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of \$889.0 million: \$400.0 million was made available to Southern Kuzbass Coal Company and \$489.0 million was made available to Yakutugol, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing of short-term debt provided by Gazprombank. As of December 31, 2014, the amount outstanding under the Southern Kuzbass Coal Company facility was \$400.0 million and the amount outstanding under the Yakutugol facility was \$385.8 million.

In August and December 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with Gazprombank to restructure debt in a total amount of \$785.8 million, providing for an extension of the grace period until April 2020 and the final maturity until April 2022.

In January 2016, the restructuring of these credit facilities became effective. As a result of the conversion into rubles, the debt of Yakutugol amounted to approximately 30.5 billion rubles and of Southern Kuzbass Coal Company amounted to approximately 30.4 billion rubles.

As of December 31, 2015, Yakutugol and Southern Kuzbass Coal Company had overdue interest in the amount of \$41.3 million and \$42.9 million (in aggregate approximately 6.1 billion rubles), respectively. All overdue interest shall be repaid until the end of March 2017.

Interest rate and interest period

Starting from the effective date, the interest under the credit facilities is payable at the CBR key rate plus 1.5% per year until April 2022. The lender may change the interest rate on the CBR key rate plus 3.5% per year if the borrowers fail to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized

and paid in accordance with the principal repayment schedule.

Repayment and prepayments

The final maturity date is April 20, 2022. Repayment is to be made in equal monthly installments starting from April 4, 2020. The lender may change the final maturity date on April 20, 2020 if the borrowers fail to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. In this case repayment is to be made in equal monthly installments starting from April 4, 2017.

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The borrowers may prepay the loans in full or in part with a 10 day prior notice to the lender.

Guarantee

The borrowers' obligations are guaranteed by Mechel Mining, Mechel Carbon, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel and cross guarantee between Southern Kuzbass Coal Company and Yakutugol.

Security

Yakutugol's obligations under the credit facility agreement are secured by a pledge of 25%+1 share in each of Southern Kuzbass Coal Company, Korshunov Mining Plant, Port Posiet, Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant and Urals Stampings Plant, 50%+1 share in Yakutugol and 25% in Port Temryuk, as well as 33.3% of common shares of Izhstal.

Southern Kuzbass Coal Company's obligations under the credit facility agreement are secured by a pledge of 25%+1 share in each of Southern Kuzbass Coal Company, Korshunov Mining Plant, Port Posiet and Beloretsk Metallurgical Plant, 50%+1 share in each of Yakutugol and Urals Stampings Plant and 25% in each of Port Temryuk and Bratsk Ferroalloy Plant, as well as 33.3% of common shares of Izhstal.

In March 2016, we mortgaged the Ulak-Elga rail line under the credit facility agreements.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel group's ratio of total borrowings to EBITDA shall not exceed 7.5:1 in 2016, 5.5:1 in 2017, 4.5:1 in 2018, 3.5:1 in 2019 and 3.0:1 in 2020. Mechel group's ratio of EBITDA to consolidated financial expense shall not be less than 1.25:1 in 2016, 1.50:1 in 2017, 1.75:1 in 2018, 2.0:1 in 2019 and 2.5:1 in 2020. During the period from 2017 to 2020, we also have to comply with the ratios of operational cash flow to EBITDA and EBITDA to revenues at the levels of 80% and 20%, respectively.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreements are governed by Russian law.

Exchange Controls

The Federal Law "On Currency Regulation and Currency Control", effective from June 18, 2004, as amended, sets forth certain restrictions on settlements between residents of Russia with respect to transactions involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

Repatriation of Export Proceeds

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing) within the time frame provided

under the respective agreement.

Restrictions on Remittance to Non-residents

The Foreign Investments Law guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may affect investors' ability to do

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so. Ruble dividends on shares may be paid to the depositary or its nominee and converted into U.S. dollars by the depositary for distribution to owners of ADSs without restriction. In addition, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws so long as the buyer is not a Russian resident for currency control purposes.

Taxation

The following discussion is not intended as tax advice to any particular investor. No opinion of counsel will be issued with respect to the following discussion and, therefore, such discussion is not based on an opinion of counsel. It is also not a complete analysis or listing of all potential U.S. federal or Russian income and withholding tax consequences of ownership of shares or ADSs. We urge such holders to consult their tax advisers regarding the specific U.S. federal, state and local and Russian tax consequences of the ownership and disposition of the shares or ADSs, including their eligibility for the benefits of a double tax treaty between the Russian Federation and their country of residence, in light of their particular facts and circumstances, as well as the applicability and effect of state, regional and local tax laws and foreign tax law.

Russian Income and Withholding Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the shares and ADSs and to the purchase, ownership and disposition of the shares and ADSs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this document. The discussion with respect to Russian legislation is based on our understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. You should consult your own professional advisors regarding the tax consequences of investing in the shares and ADSs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to ADSs are characterized by uncertainties and by an absence of special provisions with respect to transactions involving ADSs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and a more developed taxation system. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a **Russian resident holder** means: (1) an individual holder of the shares and ADSs, actually present in the Russian Federation for 183 days or more in 12 consecutive months; or (2) an organization recognized as a tax resident of the Russian Federation, namely (i) an organization or an individual entrepreneur, organized under Russian law, (ii) a foreign organization recognized as a tax resident of the Russian Federation in accordance with the international tax treaty of the Russian Federation, and (iii) a foreign organization which place of management is the Russian Federation, unless otherwise provided by the international tax treaty of the Russian Federation; or (3) an organization, organized under a foreign law, that holds and disposes of the shares and ADSs through its permanent establishment in Russia. Individual presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education, as well as for the performance of labor or other duties related to the execution of work or services at offshore raw hydrocarbon deposits.

For the purposes of this summary, a non-resident holder is a holder of the shares or ADSs which is not qualified to be a Russian resident holder as defined in the previous paragraph.

Table of Contents***Taxation of acquisition of the shares and ADSs***

No Russian tax implications should arise for holders of the shares and ADSs upon purchase of the shares and ADSs. However, starting from 2015, Russian resident holders are required to notify tax authorities about their participation in Russian organizations (in case of direct participation interests in excess of 10%) not later than one month from the date of commencement of such participation. In addition, under certain conditions a taxable material gain may arise for individuals if the shares and ADSs are purchased at a price below the deemed market value. Also, in certain circumstances, a Russian resident holder that is an organization acquiring the shares or ADSs is generally obliged to act as a tax agent to withhold profit tax on proceeds from the sale of the shares or ADSs to be transferred to a non-resident holder disposing such shares or ADSs. We urge such holders to consult their tax advisers regarding specific tax consequences of acquisition of the shares or ADSs.

Taxation of dividends

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. In some cases, tax agent's functions are performed by other legal entities. However, the applicable withholding tax rate will depend on the status of the dividend's recipient and on the availability with the Russian company paying dividends on the date of such payment of documents confirming the status of the tax resident of the respective state (country) in relation to the recipient of income.

Russian resident holders**Shares**

Dividends paid to a Russian resident holder of the shares that is a Russian organization or an individual will be generally subject to Russian withholding tax at the rate of 13%. Dividends received by Russian organizations are subject to withholding tax at the rate of 0% provided that the recipient organization constantly owns for a period of 365 calendar days or more at least 50% of participation shares in the share capital of the paying organization or share depository receipts qualifying for dividends equal to at least 50% of the total amount of dividends paid by the organization. However it is difficult to predict how the Russian tax authorities may interpret the conditions listed above. Therefore, there can be no assurance that the 0% withholding tax rate will apply.

The effective rate of this tax may be lower than 13% (other than to non-resident companies and non-resident individuals) owing to the fact that generally this tax should be calculated by multiplying the basic tax rate (13%) by the difference between (i) the dividends to be distributed by us to our shareholders, and (ii) dividends collected by us in the current and preceding tax periods from other Russian persons (except for dividends which under the current Russian tax law are taxable at the rate of 0% and provided that the amount of dividends previously was not included when determining the tax base which is determined in respect of income received by a Russian organization in the form of dividends).

Since 2014, when paying dividends in respect of shares that are recorded on depo account of foreign nominee holder and depo account of foreign authorized holder, the tax should be calculated and withheld by the depository (tax agent), which opened these accounts. Effective from January 1, 2014, the reduced tax rate of 0% does not apply on dividend payments for such shares. Under Russian law, the general rate of 13% is applied, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, the tax rate of 15% is applied.

A holder that is a foreign organization holding shares through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without a Russian entity that distributes the dividends to such holder acting as a tax agent for withholding tax) if such holder provides the Russian entity that acts as the Russian tax agent with specific documentary evidence confirming dividend income is attributable to a

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permanent establishment of the holder in Russia. Such evidence includes a notarized copy of the form confirming registration of the holder with the Russian tax authorities. A notification must also be issued by the local tax authorities at the holder's place of tax registration confirming dividend income is attributable to the permanent establishment of the holder in Russia.

According to clarifications issued by the Russian tax authorities, it may be possible to claim that the reduced withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organization, based on non-discrimination provisions of a double tax treaty between Russia and the country of tax residency of the respective foreign organization. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and the application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that any claims for application of the reduced tax rate would not be challenged by the Russian tax authorities, hence 15% withholding tax rate would be applied by us.

ADSs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of ADSs primarily because the taxation of dividends payable under ADSs is not specifically addressed under Russian tax law.

Effective from January 1, 2014, so as to apply the tax rate of 13% when paying dividends under ADSs to residents the tax agent must be submitted with certain information in the prescribed manner and in a certain period of time. If such information has not been submitted to the tax agent, the tax rate of 30% is applied. Thus, starting from 2014, the tax agent may be obliged to withhold tax at the rate of 30% (due to the absence of the required information) and Russian holders of ADSs may be unable to use the rate of 13% provided by Russian tax law for residents.

Upon receiving dividends, Russian holders which are organizations may be required to pay additional Russian profit tax at the rate of 13% (the rate applied to dividends received from non-residents) or 20% (if the income received will not be recognized as dividends) while Russian holders who are individuals may be required to pay Russian income tax at the rate of 13%. There is also no established procedure providing for the refund of tax withheld from dividends payable through the depository to Russian resident holders of ADSs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ADSs.

A holder of the ADSs that is a foreign organization conducting its business through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without a Russian entity that distributes the dividends to such holder acting as a tax agent for withholding tax) if such holder provides the Russian entity that acts as the Russian tax agent with specific documentary evidence confirming dividend income is attributable to a permanent establishment of the holder in Russia. Such evidence includes a notarized copy of the form confirming registration of the holder with the Russian tax authorities. A notification must also be issued by the local tax authorities at the holder's place of tax registration confirming dividend income is attributable to the permanent establishment of the holder in Russia.

*Non-resident holders***Shares**

Dividends paid to non-resident holders of shares will generally be subject to Russian withholding tax, which the tax agent will withhold. Under Russian law dividends paid to a non-resident holder which is an organization or individual will be subject to Russian withholding tax at rates of 15% or 30% in certain cases. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax

treaty residence of a non-resident holder of the shares.

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Since 2014, when paying dividends in respect of shares issued by Russian organizations that are recorded on depo account of foreign nominee holder, depo account of foreign authorized holder and/or depo account of depository programs, the tax should be calculated and withheld by the depository (tax agent), which opened these accounts. Effective from January 1, 2014, the reduced tax rate established in accordance with certain provisions of the double tax treaty does not apply on dividend payments under such shares. The general rate established by such treaty and not accounting for benefits or the rate of 15% provided by Russian law are applied, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied.

Thus, starting from 2014, the tax agent is obliged to withhold tax at the general rate established by the tax treaty or at the rate of 15% (in the absence of the tax treaty) or at the rate of 30% (in the absence of the required information) and non-resident holders of shares may be unable to benefit from the tax treaty. Although non-resident holders of shares may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund.

ADSs

Comments provided in the previous section (see Taxation of dividends Non-resident holders Shares) are also applicable to ADSs. Effective from January 1, 2014, the reduced tax rate established in accordance with certain provisions of the double tax treaty does not apply on dividend payments under ADSs. The general rate established by such treaty and not accounting for benefits or the rate of 15% provided by Russian law are applied, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied.

Thus, starting from 2014, the tax agent is obliged to withhold tax at the general rate established by the tax treaty or at the rate of 15% (in the absence of the tax treaty) or at the rate of 30% (in the absence of the required information) and non-resident holders of ADSs may be unable to benefit from the tax treaty. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund. See Tax treaty procedures below.

The dividends taxation rate may be reduced to 10% under the United States-Russia income tax treaty for U.S. non-resident holders. Under current regulations, authorization from the Russian tax authorities is not required to allow the tax agent to withhold tax at a reduced rate under applicable double tax treaties provided that all other requirements are met. See Tax treaty procedures.

If the tax agent is not submitted with the prescribed by the tax legislation information, it will be obliged to withhold tax at the rate of 30%. In this case, U.S. holders qualifying for a reduced rate under the United States-Russia income tax treaty may claim a refund from the Russian tax authorities/tax agents, depending on the status of a holder, within three years. There is significant uncertainty regarding the availability and timing of such refunds.

Taxation of capital gains

The following sections summarize the taxation of capital gains in respect of the disposition of the shares and ADSs.

Russian resident holders

As the Russian legislation related to taxation of capital gains derived by Russian resident holders (including organizations and individuals) in connection with ADSs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of ADSs.

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However, since 2015, Russian tax legislation does not recognize as a sale or other disposition of securities: (i) the cancellation of ADSs upon receipt of representing securities; (ii) the transfer of securities at placement of ADSs certifying the rights for represented securities.

Organizations

Capital gains arising from the sale of the shares and ADSs by a Russian resident holder that is an organization will be taxable at the regular Russian corporate profit tax rate of 20%. Russian tax legislation contains a requirement that a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted for separately from a profit from activities connected with securities that are not quoted on a stock exchange and from other profits. Since 2015, income (expenses) from operations with securities quoted on a stock exchange is recorded in the general tax base in accordance with generally established procedures. Therefore, Russian resident holders may be able to apply losses arising in respect of the listed shares and ADSs in the current base for profit tax.

Individuals

Capital gains arising from the sale, exchange or other disposition of the shares and ADSs by individuals who are Russian resident holders must be declared on the holder's tax return and are subject to personal income tax at a rate of 13%.

The income in respect of sale of the shares or ADSs by an individual is calculated as sale proceeds less documented expenses related to the purchase of these securities (including cost of securities and expenses associated with purchase, safe-keeping and sale of these securities).

Under Russian law, the acquisition value can be deducted by the source of the payment, if the sale was made by a holder through a professional trustee, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. This professional trustee, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the individual and tax withheld upon the sale of the shares and ADSs not later than April 1 of the year following the reporting year.

Furthermore, according to certain conditions, individuals may have taxable material gain at the rate of 13% if the shares and ADSs are acquired at a price below conventional market value.

A Russian resident holder who is an individual is not subject to income tax from the sale of shares in Russian organizations if the shares comprise the charter capital of Russian organizations, no more than 50% of assets of which directly or indirectly consists of immovable property located in the territory of the Russian Federation, provided that on the date of sale (redemption) of such shares they were continuously owned on the basis of the right of ownership or other proprietary right for more than five years.

Non-resident holders

Since 2015, Russian tax legislation does not recognize as a sale or other disposition of securities: (i) the cancellation of ADSs upon receipt of representing securities; (ii) the transfer of securities at placement of ADSs certifying the rights for represented securities.

Organizations

Capital gains arising from the sale, exchange or other disposition of the shares and ADSs by organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property

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located in Russia, organizations that are non-resident holders of the shares and ADSs should be subject (except as described below) to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of the shares and ADSs or 20% withholding tax on the difference between the sales, exchange or other disposition price and the acquisition costs of the shares and ADSs.

However, it should be noted that the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia will not constitute more than 50% of the company's assets as at the date of the sale of shares and ADSs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in such instances.

Where the shares and ADSs are sold by organizations being non-resident holders to persons being organizations recognized as tax residents of the Russian Federation, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Individuals

The taxation of the income of non-resident individuals depends on whether the income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the shares and ADSs outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However the Russian tax law gives no clear indication as to how the place of sale of the shares and ADSs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is within Russia or outside of Russia.

The sale, exchange or other disposal of the shares and ADSs by non-resident holders in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and the acquisition value of such shares and ADSs as well as other documented expenses, such as depository expenses and broker fees, among others. Under Russian law, the acquisition value can only be deducted by the source of the payment, if the sale was made by a non-resident holder through a professional trust manager, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. Such professional trust manager, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the shares and ADSs not later than on April 1 of the year following the reporting year.

Otherwise, if the sale is made to other organizations and individuals, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his realized profit and apply for a deduction of acquisition expenses (which includes filing of support documentation).

Although Russian tax law imposes this responsibility only on professional trust manager, brokers or dealers, in practice, the tax authorities may require organizations recognized as tax residents of the Russian Federation that are not professional trust manager, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

In some circumstances, a non-resident holder may be exempt from Russian personal income tax on the sale, exchange or other disposition of the shares and ADSs under the terms of a double tax treaty between the Russian Federation and

the country of residence of the non-resident holder. Under the United States-Russia income tax treaty, capital gains from the sale of the shares and/or ADSs by U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (as the term "fixed assets" is used in the Russian version of the United States-Russia income tax treaty) were to consist of immovable property located in Russia. If this 50% threshold

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is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States-Russia income tax treaty in relation to capital gains resulting from the sale, exchange or other disposition of the shares and/or ADSs.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See Tax treaty procedures below.

Tax treaty procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is an organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident organization seeking to obtain relief from Russian withholding tax under a tax treaty must provide to a tax agent, before the income payment date, a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income. Starting from 2016, in order to apply the provisions of the international treaties of the Russian Federation, foreign organizations will also have to provide to the Russian organization which pays the income a confirmation that the foreign organization has an actual right to receive income.

Starting from 2016, the rules of elimination of double taxation in respect of individuals act in a new version. A non-resident individual who derives income from a source in the Russian Federation in order to implement the provisions of international tax treaties will have to provide the tax agent on the income payment date a confirmation that an individual-recipient of income is a tax resident in the respective foreign country. In order to confirm the status of a tax resident an individual may use the passport of a foreign citizen or any other identification document, established by the federal law or recognized by the international treaty as such. If these documents do not make it possible to confirm the existence of an individual's tax resident status of a foreign country with which the international treaty is concluded, the tax agent should also be provided with the official confirmation of this status. Such confirmation should be issued by the competent authority of the respective foreign country authorized to issue such confirmations on the basis of the international tax treaty of the Russian Federation. If such confirmation is in a foreign language, an individual provides a notarized translation into Russian. It should be noted that the tax agent in the application of preferential provisions of the international treaty must submit to the tax authority at the place of its registration the information on foreign individuals, income paid to them from which tax had not been withheld on the basis of the international treaty, as well as the refund of the tax.

If a non-resident holder that is an organization does not obtain double tax treaty relief at the time that income is received and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities, and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above and recommended for application). The Russian tax authorities will require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

Since 2014, in respect of dividend payments on shares (including represented by ADSs) that are recorded on depo account of foreign nominee holder, depo account of foreign authorized holder and depo account of depositary

programs, a general rate established by the double tax treaty and not accounting for benefits is applied. Refund of the overpaid tax is made to the taxpayer upon the submission to the tax authorities of the documents mentioned above, as well as the following documents: (i) document confirming the ownership of shares by the taxpayer on the date determined by the decision of the Russian company on payment of income,

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(ii) document confirming the amount of income actually received on shares, (iii) documents containing information about the depository, which transferred the income on shares in favor of a foreign organization (management company), which lawfully carried out the record of rights to shares held by the taxpayer, and (iv) document confirming that the legal entity, which carried out the record of rights of share ownership on the date determined by the decision of the Russian company on payment of income, complied with additional conditions provided by Russian tax legislation or international double tax treaty for the application of the reduced tax rate when paying dividends on shares. Due to the fact that these regulations entered into force only on January 1, 2014, the practice of such refunds have not been established yet, and that is why it is not possible to exclude risks associated with a possible non-refund of the tax withheld.

A resident of the United States who is fully eligible for benefits under the United States-Russia income tax treaty is referred to in this Russian Income and Withholding Tax Considerations section as a U.S. holder. Subject to certain provisions of the United States-Russia income tax treaty relating to limitations on benefits, a person generally will be a resident of the United States for treaty purposes and entitled to treaty benefits if such person is:

liable, under the laws of the United States, for U.S. federal income tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of the holder's domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income); and

not also a resident of the Russian Federation for purposes of the United States-Russia income tax treaty. The benefits under the United States-Russia income tax treaty discussed in this document generally are not available to United States persons who hold shares or ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States-Russia income tax treaty. Subject to certain exceptions, a United States person's permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a United States person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the United States person. This summary does not address the treatment of those holders.

United States-Russia income tax treaty procedures

Under current rules, to claim the benefit of a reduced rate of withholding under the United States-Russia income tax treaty, a non-resident generally must provide official certification from the U.S. tax authorities of eligibility for the treaty benefits in the manner required by Russian law.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder's name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the U.S. Internal Revenue Service (the **IRS**). The procedures for obtaining certification are described in greater detail in the instructions to IRS Form 8802. As obtaining the required certification from the IRS may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

If tax is withheld by a Russian resident on dividends or other amounts at a rate different from that provided in the tax treaty, a U.S. holder may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted within three years from the withholding date for U.S. holders which are legal entities, and within one year from the withholding date for individual U.S. holders. The package should include confirmations of residence of the foreign holder (IRS Form 6166), a copy of the

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agreement or other documents substantiating the payment of income, documents confirming the beneficial ownership of the dividends recipient and the transfer of tax to the budget. Under the provisions of the Russian Tax Code the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

Neither the depository nor we will have any obligation to assist a U.S. holder of shares or ADSs with the completion and filing of any tax forms.

Stamp duty

No Russian stamp duty will be payable by the holders upon any of the transactions with the shares or ADSs discussed in this section (e.g., on a purchase or sale of the shares or ADSs), except for transactions involving the receipt of the shares or ADSs by way of inheritance.

Certain U.S. Federal Income Tax Considerations

The following is a summary of material U.S. federal income tax consequences of the purchase, ownership and disposition of shares or ADSs by a U.S. Holder. Solely for purposes of this Certain U.S. Federal Income Tax Considerations section, a U.S. Holder is a beneficial owner of shares or ADSs that is, for U.S. federal income tax purposes: (1) an individual who is a citizen or resident of the United States, (2) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source or (4) a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

If an entity treated as a partnership for U.S. federal income tax purposes is a beneficial owner of shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding shares or ADSs should consult its tax adviser regarding the associated tax consequences.

This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organizations; (vii) partnerships, pass-through entities, or persons that hold shares or ADSs through pass-through entities; (viii) holders that are not U.S. Holders; (ix) holders that own (directly, indirectly or constructively) 10% or more of our voting stock; (x) investors that hold shares or ADSs as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (xi) investors that have a functional currency other than the U.S. dollar and (xii) U.S. expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarized below. This summary does not address tax consequences applicable to holders of equity interests in a holder of the shares or ADSs, including, but not limited to, U.S. federal estate, gift or alternative minimum tax considerations, or non-U.S., state or local tax considerations. This summary only addresses investors that will acquire shares or ADSs in an original offering, and it assumes that investors will hold their shares or ADSs as capital assets for U.S. federal income tax purposes (generally, property held for investment).

This summary is based upon current U.S. federal income tax law, including the U.S. Internal Revenue Code of 1986 (the **Code**), its legislative history, existing, temporary and proposed regulations thereunder, published rulings and court decisions, all of which are subject to differing interpretation or change (possibly with retroactive effect), and the United States-Russia income tax treaty, which is subject to change, possibly with retroactive effect. We have not sought, and will not seek, any ruling from the IRS or any opinion of counsel with

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respect to the tax consequences discussed below, and we cannot provide assurance that the IRS will not take a position contrary to the tax consequences discussed below or that any position taken by the IRS would not be sustained.

Investors should consult their tax advisers as to the consequences under U.S. federal, estate, gift, state, local and applicable non-U.S. tax laws of the purchase, ownership and disposition of shares or ADSs.

Ownership of ADSs in general

U.S. Holders of ADSs should generally be treated for U.S. federal income tax purposes as owners of the underlying shares represented by those ADSs, assuming the relevant deposit agreement and any related agreement include customary representations and obligations (particularly relating to any pre-release of ADSs) and such representations and obligations are properly complied with. In such case, except as noted, the U.S. federal income tax consequences discussed below should apply equally to U.S. Holders of ADSs and shares, and no gain or loss will be recognized upon an exchange of an ADS for the share represented by that ADS. A U.S. Holder's tax basis in such shares will be the same as the U.S. Holder's tax basis in such ADSs, and the holding period in such shares will include the holding period in such ADSs.

Taxation of dividends on shares or ADSs

Subject to the passive foreign investment company rules described below, for U.S. federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, with respect to shares or ADSs will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with U.S. federal income tax principles. Certain dividends received by non-corporate U.S. Holders may be taxed at the lower applicable capital gains rate. This lower capital gains rate is only applicable to dividends paid by qualified foreign corporations (which term excludes PFICs, as defined below) and only with respect to shares or ADSs held for a minimum holding period (generally, 61 days during the 121-day period beginning 60 days before the ex-dividend date). A company will be a qualified foreign corporation if: (a) it is eligible for the benefits of an applicable United States income tax treaty; or (b) the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States. Non-corporate U.S. Holders are strongly urged to consult their tax advisers as to the applicability of the lower capital gains rate to dividends received with respect to shares or ADSs. Distributions in excess of our current and accumulated earnings and profits will be applied against and will reduce a U.S. Holder's tax basis in shares or ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such shares or ADSs and will be treated as described under "Taxation on sale or other disposition of shares or ADSs" below. We do not intend to calculate our earnings and profits for U.S. federal income tax purposes and, unless we make such calculations, U.S. Holders should expect that any distributions with respect to shares or ADSs generally will be reported to them as a dividend, even if that distribution would otherwise be treated as a return of capital or as a capital gain pursuant to the rules described above. Such dividends will not be eligible for the dividends received deduction allowed to corporations.

If a dividend distribution is paid in rubles, the amount includible in income will be the U.S. dollar value of the dividend, calculated using the exchange rate in effect on the date the dividend is received by the U.S. Holder (or the date of the depository's receipt in the case of the ADSs), regardless of whether the payment is actually converted into U.S. dollars on that date. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date the dividend is includible in the income of the U.S. Holder to the date the rubles are converted into U.S. dollars will be treated as U.S. source ordinary income or loss. U.S. Holders may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States-Russia income tax treaty to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Russian withholding tax under the United States-Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for a U.S. foreign tax credit

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against the U.S. federal income tax liability of the U.S. Holder. If Russian tax is withheld at a rate in excess of the applicable rate under the United States-Russia income tax treaty for which a U.S. Holder qualifies, a U.S. foreign tax credit for the excess amount may not be allowed to be claimed.

For U.S. foreign tax credit purposes, a dividend distribution will be treated as foreign source income and will generally be classified as passive category income but could, in the case of certain U.S. Holders, constitute general category income. Additionally, a U.S. Holder who does not elect to claim a foreign tax credit may instead be eligible to claim a deduction for U.S. federal income tax purposes in respect of Russian withholding tax, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules relating to the determination of the U.S. foreign tax credit, or deduction in lieu of the U.S. foreign tax credit, are complex and U.S. Holders should consult their tax advisers with respect to those rules.

Taxation on sale or other disposition of shares or ADSs

Subject to the passive foreign investment company rules described below, the sale or other disposition of shares or ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted basis in such shares or ADSs. Such gain or loss generally will be treated as long-term capital gain or loss if the shares or ADSs have been held for more than one year as of the time of the sale or other disposition. Capital gains of non-corporate U.S. Holders derived from capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to significant limitations.

Gain or loss realized on the sale or other disposition of shares or ADSs will generally be treated as U.S. source income and as a result any Russian taxes imposed upon such sale or other disposition may not be creditable against a U.S. Holder's U.S. federal income tax liability. U.S. Holders are strongly urged to consult their tax advisers as to the availability of tax credits for any Russian taxes withheld on the sale or other disposition of shares or ADSs.

If a U.S. Holder receives any foreign currency on the sale or other disposition of shares or ADSs, such U.S. Holder generally will realize an amount equal to the U.S. dollar value of such foreign currency on the settlement date of such sale or other disposition if (1) such U.S. Holder is a cash basis or electing accrual basis taxpayer and the shares or ADSs are treated as being traded on an established securities market or (2) such settlement date is also the date of such sale or other disposition. If the foreign currency so received is converted to U.S. dollars on the settlement date, such U.S. Holder should not recognize foreign currency gain or loss on such conversion. If the foreign currency so received is not converted into U.S. dollars on the settlement date, such U.S. Holder will have a basis in such foreign currency equal to its U.S. dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of such foreign currency generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes. Each U.S. Holder should consult its tax adviser regarding the U.S. federal income tax consequences of receiving foreign currency from the sale or other disposition of shares or ADSs.

Passive foreign investment company status

A non-U.S. company is a passive foreign investment company (**PFIC**) in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (1) at least 75% of its gross income is passive income or (2) at least 50% of the average value of its assets (based on an average of the quarterly values of the assets) is attributable to assets that produce or are held to produce passive income. We believe that for U.S. federal income tax purposes, we were not a PFIC for the taxable year ending in 2015. However, the PFIC determination is made annually and may involve facts that are not within our control. In addition, there are special requirements that apply to income

from the sale and ownership of commodities that need to be satisfied in order for amounts attributable to commodities to be treated as non-passive. If we were classified as a PFIC at any

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time that you hold our ADSs and shares, you may be subject to materially adverse U.S. federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of U.S. tax on distributions and gains on the sale or disposition of the ADSs and shares as well as being subject to additional U.S. tax filing requirements. Additionally, dividends paid by the company to non-corporate U.S. holders would not be eligible for the special reduced rate of tax described above under Taxation of dividends on shares or ADSs. You should consult your tax advisers as to the consequences of an investment in a PFIC.

Information reporting and backup withholding

U.S. Holders may be subject to information and backup withholding on the payment of dividends on, and the proceeds received from the disposition of, shares or ADSs, unless: (1) the U.S. Holder is an exempt recipient, or (2) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing all required information. U.S. Holders should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

FATCA

Provisions under Sections 1471 through 1474 of the Code and applicable U.S. Treasury Regulations commonly referred to as FATCA generally impose 30% withholding on certain withholdable payments and, in the future, may impose such withholding on foreign passthru payments made by a foreign financial institution (each as defined in the Code) that has entered into an agreement with the IRS to perform certain diligence and reporting obligations with respect to the foreign financial institution's U.S.-owned accounts. Prospective investors should consult their tax advisors regarding the potential impact of FATCA and any non-U.S. legislation implementing FATCA on the investment in ADSs.

Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at +1 800-SEC-0330. These filings are also available at the website maintained by the SEC at www.sec.gov.

Some of our reports and other information can also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

Glossary

Blast furnace: A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt pig iron from ore. Its name comes from the blast of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.

Carbon steel: A type of steel generally having no specified minimum quantity of any alloying element and containing only an incidental amount of any element other than carbon, silicon, manganese, copper, sulfur and phosphorus.

CIF: Cost, Insurance and Freight, a commercial term pursuant to which the seller must pay the costs, insurance and freight necessary to bring the goods to the named port of destination but the risk of loss or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.

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Coils: Steel sheet that has been wound. A slab, once rolled in a hot-strip mill, can be more than one mile long; coils are the most efficient way to store and transport sheet steel.

Continuous casting: A method of pouring steel directly from a ladle through a tundish into a special machine shaped to form billets and slabs. Continuous casting avoids the need for blooming mills for rolling billets into slabs. Continuous cast metal solidifies in a few minutes, versus several hours for an ingot. As a result of this, the chemical composition and mechanical properties of billets are more uniform.

FCA: Free Carrier, a commercial term pursuant to which the seller must deliver the goods, cleared for export, to the carrier nominated by the buyer at the named place. Costs for transportation and risk of loss transfer to the buyer after delivery to the carrier.

Flat-rolled steel/Flat products: Category of steel that includes sheet and strip, among others.

FOB: Free on Board, a commercial term pursuant to which the buyer bears all costs and risks of loss of or damage to the goods from the point the goods pass the ship's rail at the named point of shipment.

Galvanized steel: Steel coated with a layer of zinc to provide corrosion resistance in underbody auto parts, garbage cans, storage tanks, fencing wire, etc. Sheet steel normally must be cold-rolled prior to galvanizing. Galvanized steel is subdivided into hot-dipped galvanized and electrogalvanized steel.

Hot-rolled: Section that is sold in its as-produced state off the hot mill with no additional treatment, aside from being pickled and oiled (if specified).

Magnetic separator: A device used in a process when magnetically susceptible mineral is separated from gangue minerals by applying a strong magnetic field.

Pipes: Tubes used to transport fluids or gases. Pipe and tube are often used interchangeably, with a given label applied primarily as a matter of historical use.

Probable reserves: In accordance with the JORC Code, those reserves which are the economically mineable part of the indicated mineral resources. Indicated reserves include all minerals conforming to the thickness and depth limits defined in the resource base, and for which known data points are not more than 2,000 meters apart. In accordance with the USGS, reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

Proved/Proven reserves: In accordance with the JORC Code, those reserves which are the economically mineable part of the measured mineral resources. Measured mineral resources means the tonnages of in-situ minerals contained in seams or sections of seams for which sufficient information is available to enable detailed or conceptual mine planning. In accordance with the USGS, reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling, and (2) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

Raw steel: Steel in primary form of hot molten metal.

Rebar or Reinforcement bars: Round rolled products of plain or die-rolled sections of various types and classes used to strengthen concrete in highway and building construction.

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Reserve : In accordance with the JORC Code, virgin and/or accessed parts of a mineral resource base, which could be economically extracted or produced at the time of determination, considering environmental, legal and technological constraints. In accordance with the USGS, that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

Rolled steel (products): Steel with certain forms and geometric dimensions manufactured by drafting metal between rotary rolls of rolling mills.

Run-of-mine, or ROM, coal: Coal that has not undergone the processes of classification and washing.

Saleable coal: Coal that has undergone the processes of classification and washing.

Scrap (Ferrous): Ferrous (iron-containing) material that generally is remelted and recast into new steel in EAFs. Integrated steel mills also use scrap metal for up to 25% of their basic oxygen furnace charge. Scrap metal includes waste steel generated from within metal-processing plants and steel mills through edge trimming and rejects.

Sections: Blooms or billets that are hot-rolled in a rolling mill to manufacture rounds, squares, bands, among other structural shapes, L , U , T or I shapes. Sections can also be produced by welding together pieces of flat products. Sections can be used for a wide variety of purposes in the construction, engineering and transport industries.

Semi-finished steel: Steel shapes (for example, blooms, billets or slabs) that later are rolled into finished products such as beams, bars or sheet.

Sheet steel: Thin, flat-rolled steel created in a hot-strip mill by rolling a cast slab flat while maintaining the side dimensions. The malleable steel lengthens to several thousand feet as it is squeezed by the rolling mill. The most common differences among steel bars, strip, plate and sheet are merely their physical dimensions of width and gauge (thickness).

Sintering: A process that combines iron-bearing particles into small chunks. Initially, these materials are too fine to withstand the air currents of the smelting process in the blast furnace and could be thrown away. The iron is now conserved in sinter as the chunks of sinter are heavier and therefore can be charged into the blast furnace.

Slab: The most common type of semi-finished steel. Traditional slabs measure 13-35 centimeters thick, 75-300 centimeters wide and are usually about 6-12 meters long, while the output of the recently developed thin slab casters is approximately five centimeters thick. After casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet and plate products.

Special steel: Alloyed steel produced by the addition of various metals (e.g., manganese) in small quantities during the steel-making process to improve mechanical properties such as strength and resistance to stress. Special steels are intermediary products between standard steel grades and stainless steel alloys (with a high content of nickel and chrome). Special steel products are typically used as long products (e.g., special bar quality, bearing steel, tool steel and high-speed steel).

Tailings: Material rejected from a mine after the valuable minerals have been recovered.

Welded mesh: Cold-rolled or drawn wire cuts of certain length welded together at specified distances in longitudinal and traverse directions into sheets of rectangular shapes.

Wire rod: Round, semi-finished steel that is rolled from a billet and coiled for further processing. Wire rod is commonly drawn into wire or used to tie bundles. Wire rod rolling mills (rolling facilities) can run as fast as 6,000 meters per minute.

Table of Contents**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

In the normal course of business, our financial position is routinely subject to a variety of risks. We are exposed to market risks associated with foreign currency exchange rates, interest rates and commodity prices. We are also subject to the risks associated with the business environment in which we operate, including the collectibility of accounts receivable.

We do not enter into hedging transactions to manage the risks specified above.

We do not hold or issue derivative financial instruments for trading purposes.

Currency Risk

The functional currencies for our main Russian, European, Ukrainian and Kazakh subsidiaries are the Russian ruble, euro, the Ukrainian hryvnia and the Kazakh tenge, respectively. The U.S. dollar is the functional currency of our other main international operations. Our reporting currency is the Russian ruble.

In the past we entered into forward transactions to buy U.S. dollars for euros to hedge our exposure to movements in foreign currency exchange rates arising in relation to euro-denominated accounts receivable of our trading subsidiaries. These derivatives were not designated as hedging contracts for accounting purposes. As of December 31, 2015, we did not have any forward transactions.

We are exposed to movements in the U.S. dollar and euro exchange rates relative to the Russian ruble, our reporting currency. The following table sets forth our monetary assets and liabilities by currency as of December 31, 2015.

	U.S. Dollar	Euro
	(In millions of Russian rubles)	
Non-current assets		
Long-term financial assets		
Current assets		
Receivables	2,549	3,096
Short-term financial assets	1,399	1,939
Cash and cash equivalents	1,150	1,157
Long-term liabilities		
Long-term loans and borrowings		(97)
Long-term payables		(64)
Long-term finance lease liability		(33)
Short-term liabilities		
Short-term loans and borrowings	(301,442)	(30,705)
Short-term payables	(279,905)	(28,544)
Short-term finance lease liability	(19,405)	(1,936)
	(2,132)	(225)

Interest Rate Risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact our financial results. As of December 31, 2015, 2014 and January 1, 2014, the shares of the borrowings with floating rates in the total amount of the borrowings were 53% (including MosPrime 0.2%, the CBR key rate 14%, LIBOR, EURIBOR and others 39%), 39% (including MosPrime 12%, LIBOR, EURIBOR and others 27%) and 43% (including MosPrime 18%, LIBOR, EURIBOR and others 25%), respectively.

We have not entered into transactions designed to hedge against interest rate risks, which may exist in connection with our current or future indebtedness. We monitor the market and assess our options for hedging interest rate risks and may enter into such arrangements in the future.

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We manage interest rate risk through analysis of current interest rates. If there are significant changes in market interest rates management may consider refinancing of a particular financial instrument on more favorable terms.

The table below demonstrates our sensitivity to change of floating rates which management believes is an appropriate measure of the current market conditions.

	Increase/decrease in MosPrime and the CBR key rate (%)	Effect on profit before tax (In millions of Russian rubles)	Increase/decrease in LIBOR (%)	Effect on profit before tax (In millions of Russian rubles)	Increase/decrease in EURIBOR (%)	Effect on profit before tax (In millions of Russian rubles)
2014	+9.32%	4,395	+0.02%	12	+0.07%	13
	9.32%	(4,395)	0.02%	(12)	0.07%	(13)
2015	+6%	3,312	+0.5%	662	+0.25%	62
	5%	(2,760)	0.12%	(159)	0.25%	(62)

Commodity Price Risk

In the normal course of our business, we are primarily exposed to market risk of price fluctuations related to the purchase, production and sale of steel products, and to a lesser extent, to the purchase, production and sale of coal, coke and other products.

We do not use commodity derivatives or long-term fixed-price sales contracts to manage our commodity price risks.

Equity Price Risk

We also have minor investments in shares of Russian companies that are not publicly traded and, accordingly, their market values are not available. We consider that it is not practicable for us to estimate the fair values of these investments because we have not yet obtained or developed the valuation models necessary to make the estimates, and the cost of obtaining an independent valuation is believed by management to be excessive considering the significance of the investments. Accordingly, these investments are omitted from the risk information disclosure presented herein.

We do not use derivative instruments or any other arrangements to manage our equity price risks.

Table of Contents**Item 12. Description of Securities Other than Equity Securities****Depository Fees and Charges**

Our common American Depositary Shares, or common ADSs, each representing two common shares, are traded on the NYSE under the symbol MTL. The common ADSs are evidenced by common American Depositary Receipts, or common ADRs, issued by Deutsche Bank Trust Company Americas, as depositary (**DBTCA**) under the Deposit Agreement, dated as of July 27, 2004, among Mechel PAO, Deutsche Bank Trust Company Americas, and holders and beneficial owners of common ADSs, as amended on May 21, 2007, May 19, 2008 and December 21, 2015.

Common ADS holders are required to pay the following service fees to DBTCA:

Service	Fees (In U.S. dollars)
Issuance of common ADSs	Up to \$0.05 per common ADS
Cancellation of common ADSs	Up to \$0.05 per common ADS
Distribution of cash dividends or other cash distributions	Up to \$0.02 per common ADS
Distribution of common ADSs pursuant to (1) stock dividends, free stock distributions or (2) exercises of rights to purchase additional common ADSs or distribution of proceeds thereof	Up to \$0.05 per common ADS
Distribution of securities other than common ADSs or rights to purchase additional common ADSs or the distribution of proceeds thereof	Up to \$0.05 per common ADS
Common ADR transfer, combination or split-up fee	\$1.50 per transfer
Share register inspection annual fee	\$0.01 per common ADS
Operation and maintenance annual fee	\$0.02 per common ADS*

* This fee, when combined with the fees for cash distributions, shall not exceed \$0.02 per common ADS per year. Our preferred American Depositary Shares, or preferred ADSs, each representing one-half of a preferred share, are traded on the NYSE under the symbol MTL PR. The preferred ADSs are evidenced by preferred American Depositary Receipts, or preferred ADRs, issued by DBTCA under the Deposit Agreement, dated as of May 12, 2010, among Mechel PAO, Deutsche Bank Trust Company Americas, and holders and beneficial owners of preferred ADSs. Preferred ADS holders are required to pay the following service fees to DBTCA:

Service	Fees (In U.S. dollars)
Issuance of preferred ADSs	Up to \$0.05 per preferred ADS
Cancellation of preferred ADSs	Up to \$0.05 per preferred ADS
Distribution of cash dividends or other cash distributions	Up to \$0.02 per preferred ADS
Distribution of preferred ADSs pursuant to (1) stock dividends, free stock distributions or (2) exercises of rights to purchase additional preferred ADSs or distribution of proceeds thereof	Up to \$0.05 per preferred ADS
Distribution of securities other than preferred ADSs or rights to purchase additional preferred ADSs or the distribution of proceeds thereof	Up to \$0.05 per preferred ADS
Preferred ADR transfer, combination or split-up fee	\$1.50 per transfer
Share register inspection annual fee	\$0.01 per preferred ADS
Operation and maintenance annual fee	\$0.02 per preferred ADS*

* This fee, when combined with the fees for cash distributions, shall not exceed \$0.02 per preferred ADS per year. In addition, holders of ADSs may also be charged for the following expenses: (1) taxes and governmental charges; (2) cable, telex and facsimile transmission and delivery charges; (3) transfer or registration fees of the Russian share registrar; (4) fees or charges of DBTCA for conversion of foreign currency into U.S. dollars; and (5) expenses of DBTCA in connection with the issuance of definitive certificates.

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Holders of ADSs are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities underlying the ADSs. DBTCA may refuse to transfer the ADSs or to allow holders to withdraw the deposited securities underlying their ADSs until such payment is made, or it may deduct the amount of taxes owed from any payments to ADS holders. It may also sell deposited securities, by public or private sale, to pay any taxes owed. ADS holders will remain liable if the proceeds of the sale are not enough to pay the taxes. If DBTCA sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

Depository Payments for 2014 and 2015

In consideration for its appointment as depository, DBTCA agreed to reimburse us for costs of the maintenance of our ADS programs and of ADS-programs related investor relations activities. For the year ended December 31, 2014, DBTCA reimbursed us \$2.489 million in regard to our common ADS-program. We have not yet drawn down reimbursement in regard to our common ADS-program for the year ended December 31, 2015.

In addition, for the years ended December 31, 2014 and 2015, DBTCA made the following payments on our behalf in relation to our ADS programs:

Category	Payment (In U.S. dollars)	
	2014	2015
NYSE listing fees	83,140	91,888
Proxy solicitation expenses		
ADS holder identification expenses	15,300	
Full targeting project		
Perception study		
BD corporate	11,000	11,000
Total	109,440	102,888

In addition, DBTCA waived the cost of various ADR program-related support services that it provided to us in 2014 and 2015. DBTCA had valued these services at \$412,500 per annum for common ADSs when DBTCA was re-appointed in 2014 and \$160,000 per annum for preferred ADSs when DBTCA was appointed in 2015. Under certain circumstances, including early termination of the appointment of DBTCA, we would be required to repay to DBTCA some or all of the payments made to us or on our behalf (including fees waived by it) since its appointment.

Table of Contents**PART II****Item 13. Defaults, Dividend Arrearages and Delinquencies**

As of May 13, 2016, we did not pay amounts due in respect of principal and interest under certain of our loan agreements and several of our lease agreements and were in breach of certain financial and non-financial covenants under our credit facilities. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants and Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged and Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have not fulfilled our payment obligations under several of the group's lease agreements and a number of the respective lessors have required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects.

The table below summarizes the payment defaults, cross-defaults and other covenant breaches under our main facility agreements:

	Non-payment of principal or interest (yes/no)	Cross-default (yes/no)	Breach of financial covenants⁽¹⁾ (yes/no)	Breach of non- financial covenants⁽²⁾ (yes/no)
VTB Bank	yes	yes	yes	yes
Sberbank	yes	yes	yes	yes
Gazprombank	yes	yes	yes	yes
Pre-Export Facilities from a Syndicate of Banks	yes	yes	yes	yes
Universal Rolling Mill Facility Agreement	yes	yes	yes	yes
Vnesheconombank	yes	no	no	yes
Other ⁽³⁾	yes	yes	yes	yes

- (1) The breaches provided in this table are as of December 31, 2015. Our loan agreements contain a number of financial covenants, including Net Borrowings to EBITDA ratio, Total Borrowings to EBITDA ratio, EBITDA to Net Interest Expense ratio, EBITDA to Consolidated Financial Expense ratio, Adjusted Shareholder Equity and Net Borrowings.
- (2) The breaches provided in this table are as of December 31, 2015. Our loan agreements contain a number of non-financial covenants, including but not limited to the restrictions on the maximum level of indebtedness in

respect of various liabilities (i.e., tax liabilities, liabilities in respect of social funds and others), minimum level of net assets, maximum allowed level of arbitration proceedings, obligations to insure pledged assets and/or construction works, negative pledge restrictions, providing financial statements, permitted capital expenditures, certain requirements in respect of credit ratings and permitted amount of intra-group loans.

(3) Includes other loan agreements and lease agreements.

The failure to pay the scheduled principal and interest amounts in excess of the permissible thresholds and within prescribed grace periods, as well as the breach of other covenants in our loan agreements, which were not

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remedied by us or waived by our creditors, permit the creditors under those loan agreements to accelerate the payment of principal and interest under those loan agreements, as well as trigger cross-default provisions under a number of other facilities, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans.

The failure to pay amounts due, the non-compliance with financial and non-financial covenants and the triggering of the cross-default provisions resulted in the reclassification of our group's long-term debt into short-term liabilities in the amount of RUB 175,743 million as of December 31, 2015.

In addition, several of our group companies have failed to fulfill payment obligations as well as other terms and conditions under the lease agreements. As a result, the long-term finance lease liability of RUB 7,749 million was reclassified to short-term finance lease liabilities as of December 31, 2015.

Payment Defaults

The sections below summarize details of payment defaults under our main credit facilities, including principal amounts outstanding as of May 13, 2016, as well as briefly describe outstanding amounts under certain lease agreements with respect to which we have failed to meet payment obligations. Figures included in these sections are subject to change, including as a result of reconciliation with creditors, changes in exchange rates, additional charges invoiced, default interest and/or other penalty accruals, ongoing restructuring negotiations or any present or future proceedings (including litigations and arbitrations described in Item 8. Financial Information Litigation Debt litigation) related to our indebtedness or to our restructuring plans. Consequently, the figures stated herein do not constitute an acknowledgement of any obligation on our part to pay such amounts.

As of May 13, 2016, the total amount in default for failure to pay principal or interest under our credit facilities and several of our lease agreements was approximately 110.7 billion rubles. Conversion from U.S. dollars and euros into rubles is made using the CBR exchange rate on May 13, 2016. The amounts provided below do not include various fines, surcharges and penalty fees, unless otherwise noted.

VTB Bank

In October 2014, VTB Bank served a notice to Mechel and its subsidiaries that act as borrowers demanding the early payment of principal and interest under the loan agreements provided by VTB Bank. On September 9, 2015, we signed restructuring agreements with VTB Bank providing for extension of the repayment grace period and final maturity which became effective on October 13, 2015.

Facility Agreement for Mechel from VTB Bank the principal amount outstanding was 44.8 billion rubles. The amount of overdue interest was 419.7 million rubles.

Facility Agreements for Southern Kuzbass Coal Company from VTB Bank the principal amount outstanding was 11.7 billion rubles. The amount of overdue interest was 84.9 million rubles.

Facility Agreement for Yakutugol from VTB Bank the principal amount outstanding was 5.8 billion rubles. The amount of overdue interest was 42.4 million rubles.

Facility Agreement for Chelyabinsk Metallurgical Plant from VTB Bank the principal amount outstanding was 8.0 billion rubles. The amount of overdue interest was 58.3 million rubles.

Sberbank

Restructuring of the Facility Agreements for Chelyabinsk Metallurgical Plant, Mechel Trading, Izhstal, Bratsk Ferroalloy Plant, Yakutugol, Southern Kuzbass Coal Company and Korshunov Mining Plant from

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Sberbank became effective in the first quarter of 2016. Restructuring of the Facility Agreements for Southern Kuzbass Coal Company from Sberbank became effective in April 2016 following the court's approval of settlement agreements and partial assignment of principal to Gazprombank. Under the new terms, the borrowers have to pay overdue amounts of principal and of interest and penalties which are not capitalized.

Facility Agreements for Southern Kuzbass Coal Company from Sberbank the principal amount outstanding was \$295.1 million (approximately 19.2 billion rubles) and 260.2 million rubles. The amount of overdue interest was \$93.3 thousand (approximately 6.1 million rubles) and 5.3 million rubles.

Facility Agreements for Chelyabinsk Metallurgical Plant from Sberbank the principal amount outstanding was 27.8 billion rubles, including overdue principal in the amount of 5.7 billion rubles. In addition, the amount of overdue interest was 1.1 billion rubles.

Facility Agreements for Mechel Trading from Sberbank the principal amount outstanding was \$100.0 million (approximately 6.5 billion rubles). The amount of overdue interest was \$1.5 million (approximately 97.7 million rubles).

Facility Agreements for Izhstal, Bratsk Ferroalloy Plant, Yakutugol and Korshunov Mining Plant from Sberbank the principal amount outstanding was 1.4 billion rubles, including overdue principal in the amount of 95.3 million rubles. In addition, the amount of overdue interest was 57.8 million rubles.

Gazprombank

Restructuring of the Facility Agreements for Southern Kuzbass Coal Company and Yakutugol from Gazprombank became effective in the first quarter of 2016. In accordance with the new terms, Southern Kuzbass Coal Company and Yakutugol are obliged to pay monthly 400.0 million rubles of overdue interest accrued up to the effective date (in addition to the current interest). As of May 13, 2016, the overdue amount under such payments was 1,119.0 million rubles.

Facility Agreement for Chelyabinsk Metallurgical Plant from Gazprombank the principal amount outstanding was 6.0 billion rubles. The amount of overdue interest was 527.2 million rubles.

Facility Agreements for Mechel Energo, Urals Stampings Plant, Chelyabinsk Metallurgical Plant and Southern Kuzbass Coal Company from Gazprombank the principal amount outstanding was 5.0 billion rubles, including overdue principal in the amount of 5.0 billion rubles. In addition, the amount of overdue interest was 845.7 million rubles.

Facility Agreements for Mechel Service, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel Coke and Southern Kuzbass Coal Company from Gazprombank the principal amount outstanding was 11.0 billion rubles, including overdue principal in the amount of 11.0 billion rubles. In addition, the amount of overdue interest was 1.02 billion rubles.

Facility Agreements for Beloretsk Metallurgical Plant, Mechel Coke, Port Posiet and Urals Stampings Plant from Gazprombank the principal amount outstanding was 4.8 billion rubles, including overdue principal in the amount of 4.8 billion rubles. In addition, the amount of overdue interest was 526.8 million rubles.

Pre-Export Facilities from a Syndicate of Banks

Pre-Export Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from a syndicate of banks coordinated by ING Bank N.V., Société Générale and VTB Capital Plc the principal amount outstanding was \$1.0 billion (approximately 65.2 billion rubles), including overdue principal in the amount of \$722.9 million (approximately 47.0 billion rubles). In addition, the amount of overdue interest was \$81.2 million (approximately 5.3 billion rubles).

Table of Contents***Universal Rolling Mill Facility Agreement***

Facility Agreement for Chelyabinsk Metallurgical Plant from BNP Paribas, Gazprombank and UniCredit the principal amount outstanding was \$154.9 million and 154.7 million (in aggregate approximately 21.5 billion rubles), including overdue principal in the amount of \$56.3 million and 44.1 million (in aggregate approximately 6.9 billion rubles). In addition, the amount of overdue interest was \$8.2 million and 2.2 million (in aggregate approximately 697.0 million rubles).

Vnesheconombank

Facility Agreements for Elgaugol from Vnesheconombank the principal amount outstanding was \$167.3 million (approximately 10.9 billion rubles), including overdue principal in the amount of \$146.4 million (approximately 9.5 billion rubles).

Sberbank Leasing AO

In February 2015, Sberbank Leasing AO sent termination notices to the lessees (Korshunov Mining Plant, Mechel Materials, Yakutugol, Southern Kuzbass Coal Company and Metallurgshakhtspetsstroy) under the respective lease agreements for the total amount of 4.2 billion rubles (including various fines, surcharges and penalty fees). The payments were not made, and in April 2015, Sberbank Leasing AO requested through the courts accelerated repayment of amounts due under the lease agreements as well as the return of the leased assets. During the period from December 2015 to May 2016, we signed settlement agreements with Sberbank Leasing AO which waived our previous defaults and restructured our future payment schedules. The settlement agreements will become effective upon approval at the court hearings which are ongoing.

Caterpillar Financial OOO

During the period from May to August 2015, Caterpillar Financial OOO sent termination notices to the lessees (Yakutugol, Mechel Engineering, Korshunov Mining Plant, Mechel Materials, Metallurgshakhtspetsstroy, Tomusinsky Open Pit and Southern Kuzbass Coal Company) under the respective lease agreements. We have not settled the claims and Caterpillar Financial OOO filed several lawsuits with the court seeking termination of lease agreements, withdrawal of leasing assets and recovery of debt in an aggregate amount of approximately \$5.0 million and 313.9 thousand.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures**(a) Disclosure Controls and Procedures**

As required by Rules 13a-15f and 15d-15f under the Securities Exchange Act of 1934, management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in

the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and other procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

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As described below, two material weaknesses were identified in our internal control over financial reporting. Exchange Act Rule 12b-2 (17 CFR 240.12b-2) and Rule 1-02 of Regulation S-X (17 CFR 210.1-02) define a material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weaknesses, our chief executive officer and chief financial officer have concluded that, as of December 31, 2015, the end of the period covered by this report, our disclosure controls and procedures were not effective at a reasonable assurance level.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our Board of Directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2015 using the framework set forth in the report of the Treadway Commission's Committee of Sponsoring Organizations (COSO), *Internal Control - Integrated Framework* (2013).

As a result of management's evaluation of our internal control over financial reporting, management identified two material weaknesses in our internal control. These material weaknesses are described below:

We failed to operate effective controls over the IFRS financial statements close process;

We failed to operate effective controls related to the computation of deferred income taxes.
As a result of these material weaknesses, management has concluded that our internal control over financial reporting was ineffective as of December 31, 2015.

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Additional information regarding these material weaknesses follows:

(1) We failed to operate effective controls over the IFRS financial statements close process.

Due to the increased workload in connection with the first-time adoption of IFRS, we did not operate effective internal controls over the review of the IFRS consolidated financial statements and the IFRS transformation process. As a result, several material misstatements in the consolidated financial statements resulting from errors in the underlying data and manual calculations were identified and then corrected. This material weakness relates to the operating effectiveness of internal controls over the IFRS in financial statement close process and affects certain significant accounts related to non-routine and estimation processes and presentation and disclosure in the consolidated financial statements.

(2) We failed to operate effective controls related to the computation of deferred income taxes.

We failed to operate effective controls over the computation for deferred income taxes. As a result, material misstatements related to deferred income taxes were identified and adjustments were made to our financial statements to correct these errors. Specifically, misstatements were identified in the manual processing of data used in the computation of deferred income taxes. This material weakness affects deferred tax assets and liabilities and the related financial statement disclosures.

Ernst & Young LLC, an independent registered public accounting firm, has audited our consolidated financial statements and has also issued an attestation report on the effectiveness of our internal controls over financial reporting as of December 31, 2015, which contains an adverse opinion on the effectiveness of internal controls over financial reporting.

(c) Report of Independent Registered Public Accounting Firm

The Shareholders and the Board of Directors of Mechel PAO

We have audited Mechel PAO, a public joint-stock company, and subsidiaries (hereinafter referred to as the **Group**) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Group's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made

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only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment (Item 15 (b) Management's Annual Report on Internal Control over Financial Reporting):

The Group's management did not operate effective internal controls over the preparation and review of the Group's IFRS consolidated financial statements and IFRS transformation process;

The Group's management did not operate effective controls over the computation and disclosure of deferred income taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of the Group. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and this report does not affect our report dated May 13, 2016, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Group has not maintained effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

/s/ Ernst & Young LLC

Moscow, Russia

May 13, 2016

(d) Remediation Activities and Changes in Internal Control over Financial Reporting
Remediation Activities Being Undertaken

(1) We failed to operate effective controls over the IFRS financial statements close process.

In order to remedy this material weakness, we intend to expand the use of reviews by internal financial reporting experts and to converge local GAAP and IFRS accounting policies (specifically, accruals, unified chart of accounts) and dedicate increased time for review controls as well as increase the automation in the IFRS financial statements close process.

(2) We failed to operate effective controls related to the computation of deferred income taxes.

In order to remedy this material weakness, we plan to hold training for accounting and tax professionals, specifically related to accounting for deferred income taxes and detecting misstatements in the completion of the reporting forms by our subsidiaries, continue improvements related to roles, responsibilities and accountabilities over controls and processes impacting tax accounting and reporting.

Table of Contents**Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that Vladimir Korovkin, chairman of our Audit Committee, is an audit committee financial expert. Mr. Korovkin is independent in accordance with SEC Rule 10A-3. For a description of Mr. Korovkin's experience, see Item 6. Directors, Senior Management and Employees - Directors and Executive Officers.

Item 16B. Code of Ethics

We have adopted a code of business conduct and ethics that applies to our directors, officers and employees. It is available at www.mechel.com and www.mechel.ru. Hard copies of our code of business conduct and ethics are available free of charge to any person upon request. In order to request a hard copy, please send an inquiry to ir@mechel.com indicating postal address to which the hard copies should be sent and a contact person. No amendments were made to our code of business conduct and ethics in 2015.

Item 16C. Principal Accountant Fees and Services

Ernst & Young LLC has served as our independent registered public accountants for each of the fiscal years in the three year period ended December 31, 2015, for which audited financial statements appear in this Annual Report on Form 20-F. The following table presents the aggregate fees for professional services and other services rendered by Ernst & Young LLC in 2015 and 2014, respectively.

	Year Ended December 31,	
	2015	2014
	(In millions of Russian rubles, net of VAT)	
Audit Fees	120.0	152.5
Audit-related Fees	3.3	7.7
Tax Fees	2.6	1.5
Other Fees		
Total	125.9	161.7

Audit Fees

The amount of audit fees includes fees necessary to perform an audit or interim review in accordance with the standards of the Public Company Accounting Oversight Board (United States) and services that generally only the independent auditor can reasonably provide, such as comfort letters, statutory audits, attestation services and consents and assistance with, and review of, documents filed with the SEC.

Audit-related Fees

This category usually includes assurance and related services that are typically performed by the independent auditor. More specifically, these services could include, among others, employee benefit plan audits, IT-related audits, consultation concerning financial accounting and reporting standards.

Tax Fees

Tax services include, among others, tax consultation related to proposed and consummated transactions, restructuring, personal taxation and general tax consultation.

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Other fees include subscription, consultancy and training fees.

Audit Committee Pre-Approval Policies and Procedures

The Sarbanes-Oxley Act of 2002 required that we implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of Ernst & Young LLC for all audit and non-audit services, including tax services. All audit, audit-related and tax services rendered by Ernst & Young LLC in 2015 were approved by the Audit Committee before Ernst & Young LLC was engaged for such services. No services of any kind were approved pursuant to a waiver permitted pursuant to 17 CFR 210.2-01(c)(7)(i)(C).

Item 16D. Exemptions from the Listing Standards for Audit Committees

None.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not repurchase any of our shares, GDSs or ADSs in 2015.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

The NYSE permits us to follow certain home country corporate governance practices, which differ from those required for U.S. companies under the NYSE Listed Company Manual. The following table sets forth the most important differences between the NYSE corporate governance requirements for U.S. companies under the NYSE Listed Company Manual Section 303A and our current practices.

NYSE Corporate Governance Rules for U.S. Companies

A majority of directors must be independent, as determined by the board. (Section 303A.01 and 02).

Non-management directors must meet at regularly scheduled executive sessions without management. (Section 303A.03).

Listed companies must have a nominating/corporate governance and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities, as

Our Corporate Governance Practices

We comply with this requirement, although it is not required for foreign private issuers like Mechel.

Our Bylaw on the Board of Directors, which is posted in the Corporate Governance section of our corporate website, provides that before each meeting of the board of directors, independent directors shall hold a consultation in the absence of management.

We have a Committee on Appointments and Remuneration, which has four independent members. The Bylaw on Appointments and Remuneration Committee of the Board of Directors is posted in the

well as annual performance evaluation of the committee.
(Section 303A.04 and 05).

Corporate Governance section of our corporate
website.

Listed companies must have an audit committee that satisfies
the requirements of Rule 10A-3 under the Exchange Act.
(Section 303A.06).

We comply with this requirement.

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NYSE Corporate Governance Rules for U.S. Companies

Audit committee must have a minimum of three members and have a written charter specifying the committee's purpose, an annual performance evaluation and its duties and responsibilities. (Section 303A.07(a) and(b)).

Listed companies must have an internal audit function. (Section 303A.07(c)).

Shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto. (Section 303A.08).

Listed companies must adopt and disclose corporate governance guidelines. (Section 303A.09).

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. (Section 303A.10).

Our Corporate Governance Practices

Our Audit Committee has three members. The Bylaw on the Audit Committee of the Board of Directors is posted in the Corporate Governance section of our corporate website.

We have an Internal Control and Audit Department. The Bylaw on the Internal Control and Audit Department is posted in the Corporate Governance section of our corporate website.

As a Russian company, we are subject to the mandatory requirements of the Russian Joint-Stock Companies Law. The items on which shareholders can vote cannot be altered.

Our corporate governance guidelines are reflected in our various corporate documents, such as the Bylaw on the Board of Directors and the Code of Corporate Governance, all of which are posted in the Corporate Governance section of our website.

Our Code of Business Conduct and Ethics is posted in the Corporate Governance section of our website.

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PART III

Item 17. *Financial Statements*

See instead Item 18. Financial Statements.

Item 18. *Financial Statements*

The following financial statements, together with the report of Ernst & Young LLC, are filed as part of this annual report on Form 20-F.

<u>Index to the Consolidated Financial Statements</u>	F-2
<u>Report of Independent Registered Public Accounting Firm</u>	F-3
<u>Consolidated Statement of Financial Position as of December 31, 2015, 2014 and January 1, 2014</u>	F-4
<u>Consolidated Statement of Profit (Loss) and Other Comprehensive Income (Loss) for the years ended December 31, 2015 and 2014</u>	F-5
<u>Consolidated Statement of Changes in Equity as of December 31, 2015, 2014 and January 1, 2014</u>	F-7
<u>Consolidated Statement of Cash Flows for the years ended December 31, 2015 and 2014</u>	F-9
<u>Notes to the Consolidated Financial Statements</u>	F-11

Table of Contents**Item 19. Exhibits****Exhibit**

No.	Description
1.1	Charter of Mechel PAO (new version) registered on March 17, 2016.
4.1	Amendment Agreement No. 4 dated April 10, 2013 to Facility Agreement No. 2640 dated December 27, 2010 by and between VTB Bank (open joint stock company) and Mechel OAO (English translation) is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.2	Amendment Agreement No. 5 dated February 7, 2014 to Facility Agreement No. 2640 dated December 27, 2010 by and between VTB Bank (open joint stock company) and Mechel OAO (English translation) is incorporated herein by reference to Exhibit 4.2 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.3	Non-Revolver Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.4	Amending Agreement No. 1 dated December 5, 2012 to Non-Revolver Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.4 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.5	Novation Agreement No. 5593 dated December 5, 2012 to Non-Revolver Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.5 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.6	Amending Agreement No. 2 dated August 9, 2013 to Non-Revolver Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.6 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.7	Amending Agreement No. 3 dated September 27, 2013 to Non-Revolver Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.7 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.8	Amending Agreement No. 4 dated December 19, 2013 to Non-Revolver Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of

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Russia (English translation) is incorporated herein by reference to Exhibit 4.8 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

- 4.9 Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.9 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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No.	Description
4.10	Amending Agreement No. 1 dated December 27, 2012 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.10 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.11	Amending Agreement No. 2 dated March 4, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.11 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.12	Novation Agreement No. 5594 dated March 4, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.12 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.13	Amending Agreement No. 3 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.13 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.14	Amending Agreement No. 4 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.14 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.15	Amending Agreement No. 5 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.15 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.16	Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.16 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.17	Novation Agreement No. 8507 dated October 9, 2012 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.17 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.18	Amending Agreement No. 1 dated December 27, 2012 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of

Russia (English translation) is incorporated herein by reference to Exhibit 4.18 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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No.	Description
4.19	Amending Agreement No. 2 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.19 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.20	Amending Agreement No. 3 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.20 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.21	Amending Agreement No. 4 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.21 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.22	Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.22 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.23	Novation Agreement No. 8508 dated October 9, 2012 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.23 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.24	Amending Agreement No. 1 dated December 27, 2012 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.24 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.25	Amending Agreement No. 2 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.25 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.26	Amending Agreement No. 3 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.26 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.27	Amending Agreement No. 4 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of

Russia (English translation) is incorporated herein by reference to Exhibit 4.27 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.

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No.	Description
4.28	Amendment and Restatement Agreement dated December 4, 2012 made between Southern Kuzbass Coal Company Open Joint Stock Company and the Mandated Lead Arrangers, the Original Lenders, the New Lenders, the Facility Agent, the Security Agent, the Joint & Several Creditor, the Original Special Rate Providers and the Special Rate Agent is incorporated herein by reference to Exhibit 4.28 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.29	Amendment Agreement dated December 3, 2013 made between Southern Kuzbass Coal Company Open Joint Stock Company and the Facility Agent is incorporated herein by reference to Exhibit 4.29 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.30	Amendment and Restatement Agreement dated December 4, 2012 made between OJSHC Yakutugol and the Mandated Lead Arrangers, the Original Lenders, the New Lenders, the Facility Agent, the Security Agent, the Joint & Several Creditor, the Original Special Rate Providers and the Special Rate Agent is incorporated herein by reference to Exhibit 4.30 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.31	Amendment Agreement dated December 3, 2013 made between OJSHC Yakutugol and the Facility Agent is incorporated herein by reference to Exhibit 4.31 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.32	Credit Facility Agreement No. 110100/1400 dated March 12, 2014 between the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) and the Elgaugol OOO (English translation) is incorporated herein by reference to Exhibit 4.32 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.33	Credit Facility Agreement No. 110100/1401 dated March 12, 2014 between the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) and the Elgaugol OOO (English translation) is incorporated herein by reference to Exhibit 4.33 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.34	Amendment Agreement No. 6 dated May 14, 2014 to Facility Agreement No. 2640 dated December 27, 2010 by and between VTB Bank (open joint stock company) and Mechel OAO (English translation) is incorporated herein by reference to Exhibit 4.34 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013, on Form 20-F.
4.35	Amending Agreement No. 5 dated October 31, 2014 to Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.35 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.36	

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Amending Agreement No. 6 dated October 31, 2014 to Non-Revolver Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.36 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.

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No.	Description
4.37	Amending Agreement No. 5 dated October 31, 2014 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.37 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.38	Amending Agreement No. 5 dated October 31, 2014 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation) is incorporated herein by reference to Exhibit 4.38 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014, on Form 20-F.
4.39	Facilities Agreement dated September 15, 2010 made between Chelyabinsk Metallurgical Plant OAO and BNP Paribas S.A.
4.40	Deed of Amendment between Chelyabinsk Metallurgical Plant OAO and BNP Paribas S.A. dated March 6, 2012; Deed of Amendment between Chelyabinsk Metallurgical Plant OAO and BNP Paribas S.A. dated June 21, 2013; Deed of Amendment between Chelyabinsk Metallurgical Plant OAO and BNP Paribas S.A. dated June 21, 2013.
4.41	Additional Agreement No. 7 dated September 9, 2015 to Credit Agreement No. 2640 dated December 27, 2010 between VTB Bank (Public Joint Stock Company) and Mechel Open Joint Stock Company (English translation).
4.42	Amicable Agreement dated December 18, 2015 to Non-Revolving Credit Facility Agreement No. 5593 dated October 9, 2012 and Novation Agreement No. 5593 dated December 5, 2012 between Southern Kuzbass Coal Company OAO and Sberbank PJSC (English translation); Additional Agreement No. 7 dated March 4, 2016 to Non-Revolving Credit Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation).
4.43	Amicable Agreement dated December 18, 2015 to Non-Revolving Credit Facility Agreement No. 5594 dated October 9, 2012 and Novation Agreement No. 5594 dated March 4, 2013 between Southern Kuzbass Coal Company OAO and Sberbank PJSC (English translation); Additional Agreement No. 8 dated March 4, 2016 to Non-Revolving Credit Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation).
4.44	Amicable Agreement dated December 18, 2015 to Non-Revolving Credit Facility Agreement No. 8507 dated October 9, 2012 and Novation Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank PJSC (English translation); Additional Agreement No. 6 dated March 4, 2016 to Non-Revolving Credit Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation).
4.45	Amicable Agreement dated December 18, 2015 to Non-Revolving Credit Facility Agreement No. 8508 dated October 9, 2012 and Novation Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank PJSC (English translation); Additional Agreement No. 6 dated March 4, 2016 to Non-Revolving Credit Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation).
4.46	

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Additional agreement No. 2 dated August 20, 2015 to Credit Facility Agreement No. 226/12-B dated April 27, 2012 between Joint Stock Holding Company Yakutugol and Gazprombank (Joint Stock Company) (English translation).

- 4.47 Additional agreement No. 1 dated December 25, 2015 to Additional Agreement No. 2 to Credit Facility Agreement No. 226/12-B dated April 27, 2012 between Joint Stock Holding Company Yakutugol and Gazprombank (Joint Stock Company) (English translation).

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No.	Description
4.48	Additional agreement No. 2 dated August 20, 2015 to Credit Facility Agreement No. 227/12-B dated April 27, 2012 between Southern Kuzbass Coal Company Open Joint Stock Company and Gazprombank (Joint Stock Company) (English translation).
4.49	Additional agreement No. 1 dated December 24, 2015 to Additional Agreement No. 2 to Credit Facility Agreement No. 227/12-B dated April 27, 2012 between Southern Kuzbass Coal Company Open Joint Stock Company and Gazprombank (Joint Stock Company) (English translation).
4.50	Additional agreement No. 1 dated August 28, 2015 to Credit Facility Agreement No. 84/13-B dated April 26, 2013 between Southern Kuzbass Coal Company Open Joint Stock Company and Gazprombank (Joint Stock Company) (English translation).
4.51	Additional agreement No. 1 dated December 25, 2015 to Additional Agreement No. 1 to Credit Facility Agreement No. 84/13-B dated April 26, 2013 between Southern Kuzbass Coal Company Open Joint Stock Company and Gazprombank (Joint Stock Company) (English translation).
4.52	Additional agreement No. 1 dated August 28, 2015 to Credit Facility Agreement No. 85/13-B dated April 26, 2013 between Joint Stock Holding Company Yakutugol and Gazprombank (Joint Stock Company) (English translation).
4.53	Additional agreement No. 1 dated December 25, 2015 to Additional Agreement No. 1 to Credit Facility Agreement No. 85/13-B dated April 26, 2013 between Joint Stock Holding Company Yakutugol and Gazprombank (Joint Stock Company) (English translation).
4.54	Additional Agreement No. 8 dated March 31, 2016 on amendment of certain terms and conditions of Non-Revolving Credit Facility Agreement No. 5593 dated October 09, 2012 and Additional Agreement No. 7 dated March 04, 2016 to Non-Revolving Credit Facility Agreement No. 5593 dated October 09, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).
4.55	Additional Agreement No. 9 dated March 31, 2016 on amendment of certain terms and conditions of Non-Revolving Credit Facility Agreement No. 5594 dated October 09, 2012 and Additional Agreement No. 8 dated March 04, 2016 to Non-Revolving Credit Facility Agreement No. 5594 dated October 09, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).
4.56	Additional Agreement No. 7 dated March 31, 2016 on amendment of certain terms and conditions of Non-Revolving Credit Facility Agreement No. 8507 dated October 09, 2012 and Additional Agreement No. 6 dated March 04, 2016 to Non-Revolving Credit Facility Agreement No. 8507 dated October 09, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).
4.57	Additional Agreement No. 7 dated March 31, 2016 on amendment of certain terms and conditions of Non-Revolving Credit Facility Agreement No. 8508 dated October 09, 2012 and Additional Agreement No. 6 dated March 04, 2016 to Non-Revolving Credit Facility Agreement No. 8508 dated October 09, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).
4.58	Amicable Agreement dated April 13, 2016 to Non-Revolving Credit Facility Agreement No. 5593 dated October 9, 2012 and Novation Agreement No. 5593 dated December 5, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).
4.59	Amicable Agreement dated April 13, 2016 to Non-Revolving Credit Facility Agreement No. 5594 dated October 9, 2012 and Novation Agreement No. 5594 dated March 4, 2013 between Southern Kuzbass

PAO and Sberbank PJSC (English translation).

- 4.60 Amicable Agreement dated April 13, 2016 to Non-Revolver Credit Facility Agreement No. 8507 dated October 9, 2012 and Novation Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).

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No.	Description
4.61	Amicable Agreement dated April 13, 2016 to Non-Revolver Credit Facility Agreement No. 8508 dated October 9, 2012 and Novation Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass PAO and Sberbank PJSC (English translation).
8.1	Subsidiaries of Mechel.
12.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

We hereby agree to furnish to the Securities and Exchange Commission, upon its request, copies of any instruments defining the rights of holders of long-term debt issued by Mechel or any of its consolidated subsidiaries.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

MECHEL PAO

By: /s/ OLEG V. KORZHOV
Name: Oleg V. Korzhov
Title: *Chief Executive Officer*

Date: May 13, 2016

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Consolidated Financial Statements

for the year ended December 31, 2015

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Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors

Mechel PAO

We have audited the accompanying consolidated statements of financial position of Mechel PAO, a public joint stock company, and subsidiaries (hereinafter referred to as the Group) as of December 31, 2015 and 2014, and as of January 1, 2014, and the related consolidated statements of profit (loss) and other comprehensive income (loss), changes in equity, and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014, and as of January 1, 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 4 to the financial statements, the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks. These conditions raise substantial doubt about the Group s ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 4. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 13, 2016 expressed an adverse opinion thereon.

/s/ Ernst & Young LLC

Moscow, Russia

May 13, 2016

Table of Contents**MECHEL PAO****Consolidated statement of financial position as of December 31, 2015***(All amounts are in millions of Russian rubles)*

	Notes	December 31, 2015	December 31, 2014	January 1, 2014
Assets				
Current assets				
Cash and cash equivalents	12	3,079	3,983	8,979
Trade and other receivables	13	15,981	19,809	22,477
Due from related parties, net of allowance	14	96	138	196
Inventories	15	35,189	36,337	46,629
Income tax receivables		603	578	2,936
Other current financial assets		45	186	360
Other current assets	16	8,127	8,750	7,225
Total current assets		63,120	69,781	88,802
Assets of disposal group classified as held for sale	17		8,696	
Non-current assets				
Property, plant and equipment	18, 19	215,844	224,299	226,253
Mineral licenses	20	38,517	40,122	51,727
Non-current financial assets		194	489	543
Investments in associates	8	284	274	251
Deferred tax assets	21	1,492	1,438	517
Goodwill	20	21,378	22,697	22,520
Other non-current assets	16	1,243	1,462	2,481
Total non-current assets		278,952	290,781	304,292
Total assets		342,072	369,258	393,094
Equity and liabilities				
Current liabilities				
Interest-bearing loans and borrowings, including Interest payable, fines and penalties on overdue amounts of RUB 47,475 million, RUB 14,615 million and RUB 2,052 million as of December 31, 2015, 2014 and January 1, 2014	11.1	491,674	386,518	267,078
Trade and other payables	22	54,524	61,493	51,973
Advances received		3,492	4,286	4,290
Due to related parties	14	78	44	1,024

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Provisions	23	2,532	2,130	1,531
Pension obligations	24	1,120	1,072	877
Finance lease liabilities	29	13,507	15,213	10,809
Income tax payable		5,549	3,033	3,173
Tax payable other than income tax	25	8,034	9,647	7,440
Other current liabilities		26	36	29
Total current liabilities		580,536	483,472	348,224
Liabilities of disposal group classified as held for sale	17		8,607	
Non-current liabilities				
Interest-bearing loans and borrowings	11.1	4,308	9,346	25,251
Provisions	23	3,439	2,998	4,303
Pension obligations	24	3,746	3,445	4,903
Finance lease liabilities	29	481	146	2,973
Deferred tax liabilities	21	11,090	3,053	17,475
Other non-current liabilities		189	1,157	3,453
Income tax payable		137	3,447	
Total non-current liabilities		23,390	23,592	58,358
Total liabilities		603,926	515,671	406,582
Equity				
Common shares	26	4,163	4,163	4,163
Preferred shares	26	833	833	833
Additional paid-in capital	26	28,322	25,592	25,591
Accumulated other comprehensive income (loss)		445	1,018	(11)
Accumulated deficit		(301,565)	(186,272)	(53,564)
Equity attributable to equity shareholders of Mechel PAO		(267,802)	(154,666)	(22,988)
Non-controlling interests	6,7	5,948	8,253	9,500
Total equity		(261,854)	(146,413)	(13,488)
Total equity and liabilities		342,072	369,258	393,094

See accompanying notes to the consolidated financial statements.

Table of Contents**MECHEL PAO****Consolidated statement of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless shares numbers)*

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Continuing operations			
Revenue	28	253,141	243,992
Cost of goods sold		(151,334)	(153,057)
Gross profit	28	101,807	90,935
Selling and distribution expenses		(51,117)	(55,661)
Loss on write-off of property, plant and equipment		(691)	(661)
Impairment of goodwill and other non-current assets	19	(1,460)	(7,996)
Allowance for doubtful accounts	13	(1,464)	(3,671)
Taxes other than income taxes		(5,853)	(6,469)
Allowance for amounts due from related parties	14	(43)	(126)
Administrative and other operating expenses	27.1	(17,300)	(16,315)
Other operating income	27.3	189	851
Total selling, distribution and operating expenses, net		(77,739)	(90,048)
Operating profit		24,068	887
Finance income	27.4	183	107
Finance costs	27.5	(60,452)	(28,110)
Foreign exchange gain (loss), net		(71,106)	(103,176)
Share of profit of associates	8		7
Other income	27.6	526	684
Other expenses	27.6	(347)	(1,486)
Total other income and (expense), net		(131,196)	(131,974)
Loss before tax from continuing operations		(107,128)	(131,087)
Income tax (expense) benefit	21	(8,322)	8,822
Loss for the year from continuing operations		(115,450)	(122,265)
Discontinued operations			
	17	822	(11,702)

Profit (loss) after tax for the year from discontinued operations, net

Loss for the year	(114,628)	(133,967)
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Attributable to:

Equity holders of the parent	(115,163)	(132,704)
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Non-controlling interests	535	(1,263)
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See accompanying notes to the consolidated financial statements.

Table of Contents**MECHEL PAO****Consolidated statement of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015***(All amounts are in millions of Russian rubles)*

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of income tax:</i>		295	1,170
Exchange differences on translation of foreign operations		287	1,168
Net gain on available for sale financial assets		8	2
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods, net of income tax:</i>		(194)	(127)
Re-measurement losses on defined benefit plans	24	(194)	(127)
Other comprehensive income for the year, net of tax		101	1,043
Total comprehensive loss for the year, net of tax		(114,527)	(132,924)
Attributable to:			
Equity holders of the parent		(115,064)	(131,675)
Non-controlling interests		537	(1,249)
Earnings (Loss) per share			
Weighted average number of common shares	26	416,270,745	416,270,745
Basic and diluted, loss for the year attributable to ordinary equity holders of the parent	26	(276.65)	(318.79)
Loss per share from continuing operations (Russian rubles per share) basic and diluted	26	(278.44)	(289.96)
Earnings (loss) per share from discontinued operations (Russian rubles per share)	26	1.79	(28.83)
<i>See accompanying notes to the consolidated financial statement</i>			

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MECHEL PAO

Consolidated statement of changes in equity for the year ended December 31, 2015*(All amounts are in millions of Russian rubles, unless shares numbers)*

	Notes	Common shares		Attributable to equity holders of the parent			Equity attributable to other shareholders			Non-controlling interest	Total equity
		Shares Quantity	Amount	Preferred shares Shares Quantity	Amount	Additional paid-in capital	Accumulated deficit	Accumulated comprehensive income (loss)	Mechel PAO		
of January 2014		416,270,745	4,163	83,254,149	833	25,591	(53,564)	(11)	(22,988)	9,500	(13,400)
Changes for the period							(132,704)		(132,704)	(1,263)	(133,967)
Net comprehensive income (loss)											
Gain on sale of assets available for financial investments								2	2		
Measurement changes on defined benefit plans	24							(141)	(141)	14	(127)
Change in differences on translation of foreign operations								1,168	1,168		1,168
Net comprehensive (loss) income							(132,704)	1,029	(131,675)	(1,249)	(132,924)
Dividends declared to shareholders of Mechel PAO	26						(4)		(4)		
Dividends declared to other shareholders	26									(2)	

-controlling rest										
posal of -controlling rest	6				1			1		4
of December 2014	416,270,745	4,163	83,254,149	833	25,592	(186,272)	1,018	(154,666)	8,253	(146,4

See accompanying notes to the consolidated financial statements.

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Table of Contents**MECHEL PAO****Consolidated statement of changes in equity for the year ended December 31, 2015 (continued)***(All amounts are in millions of Russian rubles, unless shares numbers)*

	Notes	Common shares		Attributable to equity holders of the parent			Equity attributable to other shareholders			Non-controlling interest	Total equity
		Shares Quantity	Amount	Shares Quantity	Amount	Additional paid-in capital	Accumulated deficit	Accumulated income (loss)	Mechel PAO		
Balance as of January 1, 2015		416,270,745	4,163	83,254,149	833	25,592	(186,272)	1,018	(154,666)	8,253	(146,413)
Net (loss) profit for the period							(115,163)		(115,163)	535	(114,628)
Net comprehensive income (loss)											
Net gain on assets available for sale								8	8		8
Measurement losses on defined benefit plans	24							(196)	(196)	2	(194)
Exchange differences on translation of foreign operations								287	287		287
Total comprehensive (loss) income for the year							(115,163)	99	(115,064)	537	(114,527)
Transfer of cumulative translation adjustment due to disposal of	17							(798)	(798)		(798)

Discontinued operations										
Transfer of actuarial gains (losses) due to disposal of discontinued operations	17					(126)	126			
Dividends declared to shareholders of Mechel PAO	26					(4)		(4)		(4)
Dividends declared to non-controlling interest	26									
Acquisition of non-controlling interest	6,26				2,730			2,730	(2,842)	(112)
As of December 31, 2015	416,270,745	4,163	83,254,149	833	28,322	(301,565)	445	(267,802)	5,948	(261,854)

See accompanying notes to the consolidated financial statements.

Table of Contents**MECHEL PAO****Consolidated Statement of cash flows for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)***Consolidated Statement of Cash Flows**

	Notes	Year ended December 31, 2015	2014
Cash Flows from Operating Activities			
Net loss		(114,628)	(133,967)
(Profit) loss from discontinuing operations, net of income tax		(822)	11,702
Net loss from continuing operations		(115,450)	(122,265)
<u>Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:</u>			
Depreciation		12,397	12,639
Depletion and amortization		1,688	1,790
Foreign exchange loss		71,106	103,176
Deferred income taxes	21	7,946	(15,525)
Allowance for doubtful accounts	13	1,464	3,671
Allowance for amounts due from related parties	14	43	126
Write-off of accounts receivable	27.1	247	185
Write-off of taxes receivable			1,605
Write-offs of inventories to net realisable value	15	1,003	394
Revision in estimated cash flows of rehabilitation provision	27.3	(47)	(236)
Loss on write-off of property, plant and equipment	27.1	691	661
Impairment of goodwill and non-current assets	19	1,460	7,996
Loss on sale of property, plant and equipment		102	85
Gain on sale of investments	27.6		(483)
Gain on accounts payable with expired legal term	27.6	(222)	(37)
Pension benefit plan curtailment gain	27.3	(142)	(58)
Pension service cost and actuarial loss, other expenses	24	192	52
Finance income	27.4	(183)	(107)
Finance costs	27.5	60,452	28,110
Other		480	1,492
Changes in working capital items:			
Trade and other receivables		4,719	2,089
Inventories		1,873	14,565
Trade and other payables		(7,972)	(1,640)
Advances received		(664)	62
Taxes payable and other current liabilities		(1,465)	8,771
Settlements with related parties		(275)	(29)
Other current assets		997	(822)
Interest received		25	22

Interest paid	(28,910)	(14,963)
Income taxes paid	(1,437)	(2,509)
Net operating cash flows of discontinued operations	(136)	(745)
Net cash provided by operating activities	9,982	28,072

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Table of Contents**MECHEL PAO****Consolidated Statement of cash flows for the year ended December 31, 2015 (continued)***(All amounts are in millions of Russian rubles, unless stated otherwise)*

	Notes	Year ended December 31, 2015	2014
<i>continued from previous page</i>			
Cash Flows from Investing Activities			
Monthly installments for acquisition of DEMP		(4,819)	(3,223)
Proceeds from disposal of securities		143	538
Loans issued and other investments		(6)	(36)
Proceeds from disposal of Bluestone		101	
Proceeds from disposal of subsidiaries		76	632
Purchases available for sale securities			(113)
Proceeds from loans issued		15	151
Proceeds from disposals of property, plant and equipment		405	830
Purchases of property, plant and equipment		(5,076)	(11,365)
Purchases of mineral licenses and other related payments		(71)	
Interest paid, capitalized		(830)	(5,141)
Net investing cash flows of discontinued operations			(12)
Net cash used in investing activities		(10,062)	(17,739)
Cash Flows from Financing Activities			
Proceeds from borrowings		13,875	64,469
Repayment of borrowings		(11,896)	(77,761)
Dividends paid		(4)	(4)
Dividends paid to noncontrolling interest		(1)	(6)
Acquisition of noncontrolling interest in subsidiaries		(1)	(1,425)
Repayment of obligations under finance lease		(2,677)	(1,863)
Sale leaseback proceeds			675
Net financing cash flows of discontinued operations			(105)
Net cash used in financing activities		(704)	(16,020)
Effect of exchange rate changes on cash and cash equivalents		331	901
Net decrease in cash and cash equivalents		(453)	(4,786)
Cash and cash equivalents at beginning of period		1,344	6,130
Cash and cash equivalents at end of period		891	1,344

Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)***Notes to the consolidated financial statements****1. Corporate information****(a) Information**

Mechel PAO (Mechel, formerly Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies owned by two individual shareholders (the Controlling Shareholders). The Controlling Shareholders, directly or through their associates, either acquired existing companies or established new companies, at varying dates from 1995 through March 19, 2003, which were contributed to Mechel after its formation. The formation of Mechel and contribution of the subsidiaries' shares into Mechel's capital represents a reorganization of entities under common control, and accordingly, has been accounted for in a manner similar to a pooling for the periods presented. During 2006, one of the Controlling Shareholders sold all his Mechel's stock to the other Controlling Shareholder, Igor Zyuzin, the ultimate controlling party. In accordance with the changes in the Civil Code of the Russian Federation Mechel has the registered changes in its Charter on March 17, 2016 and changed its corporate name from Mechel OAO to Mechel PAO. The registered office is located at Krasnoarmeyskaya St. 1, Moscow 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the Group. Set forth below is a summary of the Group's primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at December 31, 2015
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	Jan 21, 1999	96.6%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	Dec 27, 2001	94.2%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 24, 2002	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 14, 2002	91.5%
Ural Stampings Plant (USP)	Russia	Steel products	April 24, 2003	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	Oct 16, 2003	90.0%
Mechel Nemunas (MN)	Lithuania	Steel products	Oct 15, 2003	100.0%
Mechel Energo	Russia	Power generation and	Feb 3, 2004	100.0%

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sales				
Port Posiet	Russia	Transshipment	Feb 11, 2004	97.5%
Izhstal	Russia	Steel products	May 14, 2004	90.0%
Port Kambarka	Russia	Transshipment	April 27, 2005	90.4%
Mechel Service	Russia	Trading	May 5, 2005	100.0%
Mechel Trading	Switzerland	Trading	Dec 20, 2005	100.0%
Mechel Coke	Russia	Coke production	June 8, 2006	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	Oct 4, 2006	99.5%

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015**

(All amounts are in millions of Russian rubles, unless stated otherwise)

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at December 31, 2015
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 19, 2007	98.3%
Kuzbass Power Sales Company (KPSC)	Russia	Power distribution	June 30, 2007	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferroalloy production	Aug 6, 2007	100.0%
Yakutugol	Russia	Coal mining	Oct 19, 2007	100.0%
Port Temryuk	Russia	Transshipment	March 13, 2008	100.0%
Mechel-Carbon	Switzerland	Trading	April 2, 2008	100.0%
HBL Holding GmbH (HBL)	Germany	Trading	Sept 26, 2008	100.0%
Cognor Stahlhandel GmbH including its subsidiaries (Cognor)	Austria	Trading	Sep 25, 2012	100.0%
Elgaugol	Russia	Coal mining	Aug 14, 2013	99.9%

* Date, when a control interest was acquired or a new company established.

Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity and heat power), and conducts operations in Russia, Ukraine, Kazakhstan and Europe. The Group sells its products within Russia and foreign markets. Through acquisitions, the Group has added various businesses to explore new opportunities and build an integrated steel, mining, ferroalloy and power group. The Group operates in a highly competitive and cyclical industry; any local or global downturn in the industries may have an adverse effect on the Group's results of operations and financial condition. While the Group will utilize funds from operations, it expects to continue to rely on debt markets and other financing sources for its capital needs. As discussed in Notes 4 and 5, management believes that the Group will secure adequate financing.

2. Basis of preparation of the consolidated financial statements**Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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The consolidated financial statements have been prepared on a historical cost basis, except for specific financial assets and liabilities that have been measured at fair value and certain exemptions applied by the Group under IFRS 1 First-time Adoption of International Financial Reporting Standards (Note 9).

Russian associates and subsidiaries of the Group maintain their books and records in Russian rubles and prepare accounting reports in accordance with the accounting principles and practices mandated by Russian Accounting Standards (RAS). Foreign subsidiaries and associates maintain their books and records in different foreign functional currencies and prepare accounting reports in accordance with generally accepted accounting

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

principles (GAAP) in various jurisdictions. The financial statements and accounting reports for the Group and its subsidiaries and associates for the purposes of preparation of the consolidated financial statements in accordance with IFRS have been translated and adjusted on the basis of the respective standalone RAS or other GAAP financial statements.

The accompanying consolidated financial statements differ from the financial statements issued for the RAS and other GAAP purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) purchase accounting; (2) recognition of interest expense and certain operating expenses; (3) valuation and depreciation of property, plant and equipment and mineral licenses; (4) defined benefit plans; (5) foreign currency translation; (6) deferred income taxes; (7) accounting for tax penalties, uncertainties and contingencies, (8) revenue recognition; (9) valuation allowances for unrecoverable assets, and (10) recording investments at fair value.

For all periods up to and including the year ended December 31, 2014, the Group prepared its financial statements in accordance with generally accepted accounting principles in U.S. GAAP. The accompanying consolidated financial statements for the year ended December 31, 2015 are the first the Group has prepared in accordance with IFRS. Refer to Note 9 for information on how the Group adopted IFRS.

The consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)

exposure, or rights, to variable returns from its involvement with the investee

the ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the

Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (loss) (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the statement of profit (loss) and other comprehensive income (loss). Any investment retained is recognised at fair value.

3. Summary of significant accounting policies

(a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit (loss) and other comprehensive income (loss).

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit (loss) and other comprehensive income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation

when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(b) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit (loss) and other comprehensive income (loss) reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit (loss) and other comprehensive income (loss) outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as "Share of profit of an associate" in the consolidated statement of comprehensive income (loss).

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of comprehensive income (loss).

(c) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

Expected to be realised or intended to be sold or consumed in the normal operating cycle

Held primarily for the purpose of trading

Expected to be realised within twelve months after the reporting period

Or

Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

All other assets are classified as non-current.

A liability is current when:

It is expected to be settled in the normal operating cycle

It is held primarily for the purpose of trading

It is due to be settled within twelve months after the reporting period

Or

There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duty.

Revenues are inflows from sales of goods that constitute ongoing major operations of the Group and are reported as such in the statement of profit (loss) and other comprehensive income (loss). Inflows from incidental and peripheral operations are considered gains and are included, net of related costs, in other income in the consolidated statement of profit (loss) and other comprehensive income (loss).

The following criteria are also applicable to other specific revenue transactions:

Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, associated sales taxes (VAT) and export duties.

Principal vs agent arrangements

The Group is involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when the Group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when the Group has earned a commission or fee as an agent.

Shipping and handling costs

The Group classifies all amounts billed to customers in a sale transaction and related to shipping and handling as part of sales revenue and all related shipping and handling costs as selling and distribution expenses when the Group is acting as a principal in accordance with the requirements of IAS 18 Revenue.

Sales of power

In the Power segment (Note 28), revenue is recognised based on unit of power measure (kilowatts) delivered to customers, since at that point revenue recognition criteria are met. The billings are usually done on a monthly basis, several days after each month end.

Interest income

For all financial instruments measured at amortised cost interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit (loss) and other comprehensive income (loss).

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

(f) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Uncertain tax positions

The Group's policy is to comply fully with the applicable tax regulations in the jurisdictions in which its operations are subject to income taxes. The Group's estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by the Group's subsidiaries will be subject to a review or audit by the relevant tax authorities. The Group and the relevant tax authorities may have different interpretations of how regulations should be applied to actual transactions. Such uncertain tax positions are accounted for in accordance with IAS 12 Income Taxes and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group applies single most likely outcome method of uncertain tax positions estimation.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015**

(All amounts are in millions of Russian rubles, unless stated otherwise)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

(g) Foreign currencies

The Group's consolidated financial statements are presented in Russian rubles, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies of the main Russian, European, Ukrainian and Kazakh subsidiaries of the Group are the Russian ruble, Euro, the Ukrainian hryvnia and the Kazakh tenge, respectively. The U.S. dollar is the functional currency of the other main international operations of the Group. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The following table presents the exchange rates for the functional and operating currencies at various subsidiaries, other than the presentation currency:

Currency	Rates at			Average exchange rates*	
	December, 31 2015	December, 31 2014	January, 1 2014	December, 31 2015	December, 31 2014
U.S. dollar	72.88	56.26	32.73	60.96	38.42
Euro	79.70	68.34	44.97	67.78	50.82
Ukrainian hryvnia	3.05	3.56	3.97	2.83	3.25
Kazakh tenge	0.22	0.31	0.21	0.28	0.21

(*) Exchange rates shown in Russian rubles for one local currency unit.

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

The majority of the balances and operations not already denominated in the presentation currency were denominated in the U.S. dollar and Euro. The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of Russia (CBR) and are generally considered to be a reasonable approximation of market rates.

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into rubles at the rate of exchange prevailing at the reporting date and their statements of profit (loss) and other comprehensive income (loss) are translated at the weighted average exchange rate for the period. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(h) Non-current assets held for sale and discontinued operations

The Group classifies non-current assets (or disposal group) as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

Represents a separate major line of business or geographical area of operations

Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

Or

Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit (loss) and other comprehensive income (loss).

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

Additional disclosures are provided in Note 17. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

(i) Mineral licenses

Mineral licenses acquired separately are measured on initial recognition at cost. The cost of mineral licenses acquired in a business combination is their fair value at the date of acquisition. Mineral licenses are amortized under a unit of production basis over proven and probable reserves of the relevant area.

In order to calculate proven and probable reserves, estimates and assumptions are used about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. There are numerous uncertainties inherent in estimating proven and probable reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

The Group established a policy, according to which internal mining engineers review proven and probable reserves annually. This policy does not change the Group's approach to the measurement of proven and probable reserves as of their acquisition dates as part of business combinations that involve independent mining engineers. The Group's proven and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

(j) Property, plant and equipment

Property, plant and equipment and construction in progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation provision, and, for qualifying assets (where relevant), borrowing costs and other costs incurred in connection with the borrowings. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Where a separately depreciated asset, or part of an asset, is replaced, the expenditure is capitalised. Where part of the asset was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. All other repair and maintenance costs are recognised in the statement of profit (loss) and other comprehensive

income (loss) as incurred.

The capitalised value of a finance lease is also included in property, plant and equipment. The present value of the expected cost for the rehabilitation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Inventories planned to be used for construction and spare parts with useful lives over one year are recorded within property, plant and equipment.

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MECHEL PAO

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Mining assets and processing plant and equipment

Mining assets and processing plant and equipment are those assets, including construction in progress, which are intended to be used only for the needs of a certain mine or field, and upon full extraction exhausting of the reserves of such mine or the field, these assets cannot be further used for any other purpose without a capital reconstruction.

Items of production mines are stated at cost, less accumulated depletion and accumulated impairment losses, if any.

Costs of developing new underground mines are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. Additionally, interest expense subject to allocation to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of identified proven and probable reserves. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Group concludes that a future economic benefit is more likely than not to be realized.

Stripping costs incurred in the development phase of a mine, before the production phase commences, are capitalized as part of cost of constructing the mine. The capitalization of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. Stripping costs undertaken during the production phase of mine are charged to profit and loss as cost of goods sold as incurred.

When mining assets and processing plant and equipment are placed in production, the applicable capitalized costs, including mine development costs, are depleted using the unit-of-production method at the ratio of tonnes of mineral mined or processed to the estimated proven and probable mineral reserves that are expected to be mined during the estimated lives of the mines. The unit-of-production method is used for the underground mine development structure costs as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

A decision to abandon, reduce or expand activity on a specific mine is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral licenses, and the likelihood that the Group will continue exploration on the mine. Based on the results at the conclusion of each phase of an exploration program, properties that are not economically feasible for production are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the companies owning such mineral rights.

Other property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocated material and manufacturing overhead costs. When construction activities are performed over an extended period, borrowing costs incurred in connection with the borrowing of funds are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

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Property, plant and equipment (apart from railway of the Elga coal deposit) are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the statement of profit (loss) and comprehensive income (loss).

The following useful lives are used as a basis for calculating depreciation:

Category of asset	Useful economic lives estimates, years
Buildings and constructions	5-85
Operating machinery and equipment	2-30
Transportation vehicles	2-25
Other equipment	2-15

(k) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit (loss) and other comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit (loss) and other comprehensive income (loss) on a straight-line basis over the lease

term.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest including exchange differences arising from foreign currency borrowings and other costs that an entity incurs in connection with the borrowing of funds.

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Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

According to IAS 23 Borrowing Costs, borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Foreign exchange differences on borrowings directly attributable to the acquisition, construction or production of a qualifying asset are considered by the Group to be eligible for capitalization in the amount of difference between actual amount of interest costs and potential amount of interest costs calculated using a weighted average of rates applicable to ruble-nominated borrowings of the Group during the period. All other borrowing costs are recognised in the statement of profit (loss) and other comprehensive income (loss) in the period in which they are incurred.

(m) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years.

(n) Financial instruments initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or as derivatives. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group

commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

Financial assets at fair value through profit or loss

Loans and receivables

Held-to-maturity investments

AFS financial assets.

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Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit (loss) and other comprehensive income (loss).

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit (loss) and other comprehensive income (loss). The losses arising from impairment are recognised in the statement of profit (loss) and other comprehensive income (loss) in finance costs for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 13.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit (loss) and other comprehensive income (loss) in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

The rights to receive cash flows from the asset have expired

Or

The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Financial assets	Note 11
Trade and other receivables	Note 13.

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred loss event), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(ii) Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit (loss) and other comprehensive income (loss).

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 Financial Instruments Recognition and Measurement are satisfied.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit (loss) and other comprehensive income (loss). This category generally applies to interest-bearing loans and borrowings (Note 11).

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit (loss) and other comprehensive income (loss).

(o) Derivative financial instruments

The Group uses derivative financial instruments, such as cross currency swap and cross currency option. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair

value is positive and as financial liabilities when the fair value is negative.

For the years ended December 31, 2015, 2014 and as of January 1, 2014, the Group did not have any derivatives designated as hedging instruments.

(p) Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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The cost of inventories is determined under the weighted average cost method, and includes all costs in bringing the inventory to its present location and condition. The elements of costs include direct material, labor and allocable material and manufacturing overhead.

Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and allocation of fixed and variable production overheads. Raw materials are valued at a purchase cost inclusive of freight and other shipping costs.

Coal and iron ore inventory costs include direct labor, supplies, depreciation of equipment, depletion of mining assets and amortization of licenses to use mineral reserves, mine operating overheads and other related costs. Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

(q) Impairment of non-current assets

Further disclosures relating to impairment of non-current assets are also provided in the following notes:

Intangible assets	Note 20
Impairment of goodwill and other non-current assets	Note 19

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group's CGUs represent single entities with one component of business in each case. As of December 31, 2015, the Group had the following number of CGUs by segments for impairment testing purposes: Steel 9, Mining 7 and Power 2.

In assessing value in use, the Group uses assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The growth rates are based on the Group's growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs of disposal, recent market transactions are taken into account.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

Impairment losses of continuing operations are recognised in the statement of profit (loss) and other comprehensive income (loss) in expense categories consistent with the function of the impaired asset.

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

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

Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(r) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

(s) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation including legal or tax proceedings obligations and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit (loss) and other comprehensive income (loss).

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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Rehabilitation provision

Mine rehabilitation costs will be incurred by the Group either while operating, or at the end of the operating life of the Group's facilities and mine properties. The Group assesses its mine rehabilitation provision at each reporting date. The Group recognises a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognising an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment.

Any reduction in the rehabilitation provision and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit (loss) and other comprehensive income (loss).

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit (loss) and other comprehensive income (loss) as part of finance costs.

For closed sites, changes to estimated costs are recognised immediately in the statement of profit (loss) and other comprehensive income (loss).

Environmental expenditures and liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognised when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

(t) Pensions and other post-employment benefits

Defined benefit pension and other post-retirement plans

The Group has a number of defined benefit pension plans that cover the majority of production employees. Benefits under these plans are primarily based upon years of service and average earnings. The Group accounts

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for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of profit (loss) and other comprehensive income (loss), so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan.

The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield at the year end on highly rated long-term bonds.

Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognised directly in the statement of comprehensive income.

For unfunded plans, the Group recognizes a pension liability, which is equal to the projected benefit obligation. For funded plans, the Group offsets the fair value of the plan assets with the projected benefit obligations and recognizes the net amount of pension liability. The market value of plan assets is measured at each reporting date.

State pension fund

The Group's Russian subsidiaries are legally obligated to make defined contributions to the Russian Pension Fund, managed by the Russian Federation Social Security (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Pension Fund relating to defined contribution plans are charged to income in the year, to which they relate.

(u) Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognised during the reporting period. Estimates and assumptions are continually evaluated and are based on the Group's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amount recognised in the consolidated financial statements.

Abandoned Activity

As of January 1, 2014, Southern Urals Nickel Plant (SUNP) was recognised as abandoned activity according to a decision to close SUNP without sale. In July 2013, the Group received an approval from the governmental authorities to abandon the industrial complex. The closure of SUNP is aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses. As of December 31,

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2015, the works related to closure of the plant are ongoing (Note 17); therefore the Group excluded the results of SUNP from the continuing operations and reported them as discontinued operations for the year ended December 31, 2015 and prior periods.

Capitalization of Interest Related to the Elga Coal Deposit and Railway Construction

In 2013 and 2014, Elgaugol OOO (Elgaugol) and the Russian State Corporation Bank for Development and Foreign Economic Affairs (VEB) signed credit agreements for financing of the Elga coal project approved by the VEB s Supervisory Board in September 2013. The use of proceeds under these facilities is limited to the development of the Elga coal project. Borrowing costs under these VEB facilities that are directly attributable to the construction of the Elga coal project are capitalized. Borrowing costs consist of interest including exchange differences arising from revaluation of foreign currency borrowings and other costs that the Group incurs in connection with the debt servicing.

Railway Depreciation Method

In 2015, the Group commences to depreciate the railway of the Elga coal deposit using units of production method. In applying the units of production method, depreciation is normally calculated based on produced and delivered tonnes in the period as a percentage of total expected tonnes to be produced and delivered in current and future periods over the Elga coal deposit life cycle. The Group s analysis has shown that the consumption of the economic benefits of the asset is linked to production and delivery of coal. The Group assesses the total or ultimate railway capacity in tonnes at least at each financial year end and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Principal vs Agent Arrangements

The Group makes significant judgment on gross or net revenue recognition. The Group evaluates the relevant facts and circumstances and takes into consideration the following factors in determining whether to recognize revenue on a gross basis:

the Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;

the Group has inventory risk before or after the customer order, during shipping or on return;

the Group has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and

the Group bears the customer's credit risk for the amount receivable from the customer.

Otherwise, revenues are reported net when the Group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. In the situation when the Group acts as a supplier and as a buyer with the same counterparty, the Group analyzes the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

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Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below or in the related accounting policy note. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group.

In particular, the Group has identified a number of areas where significant estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below.

Deferred Tax Assets and Uncertain Tax Positions

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits and the existence of taxable temporary differences (Note 21). Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognised in the statement of profit (loss) and other comprehensive income (loss).

Impairment of Property, Plant and Equipment and Other Non-current Assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to

determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (Note 19).

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Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an

estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in Note 19.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Mineral Reserves

Mineral reserves and the associated mine plans are a material factor in the Group's computation of a depletion charge. Estimation of reserves involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgment and development of assumptions. Mine plans are periodically updated which can have a material impact on the depletion charge for the period. More details are provided in Note 3 (i).

Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 10).

Provisions

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a

reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable (Note 23).

Pensions and Other Post-Employment Benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various

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assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. More details are provided in Note 24.

Rehabilitation Provisions

The Group reviews rehabilitation provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities. Rehabilitation provisions are recognised in the period in which they arise and are stated at the best estimate of the present value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment (Note 18).

Impairment of Financial Assets

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Determining Net Realizable Value of Inventories

The Group makes write-downs for obsolete and slow-moving raw materials and spare parts. In addition, finished goods of the Group are carried at net realizable value (Note 15). Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

For other judgments, estimates and assumptions and details refer to:

Mineral licenses (Note 3(i))

Property, plant and equipment (Note 3(j))

Recovery of deferred tax assets (Note 3(f))

Non-current assets held for sale and discontinued operations (Note 3(h))

Inventories (Note 3(p))

Impairment of non-current assets (Note 3(q))

Pensions and other post-employment benefits (Note 3(t))

Provisions (Note 3(s))

Fair value measurement (Note 3(d)).

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(v) Standards issued but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective.

The effect from the application of IFRS 9 Financial Instruments – Classification and Measurement, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases and has not yet been assessed.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no material impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014. The Group does not intend to adopt this standard before its effective date.

IAS 39 Financial Instruments: Recognition and Measurement – Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the own use scope exception (when IFRS 9 will be applied – see below).

IFRS 7 Financial Instruments: Disclosures – Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (when IFRS 9 will be applied – see below).

IFRS 9 Financial Instruments – Classification and Measurement. Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective for annual periods beginning on or after January 1 2018).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the Group's available for sale financial assets and held to maturity investments.

IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

In particular for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other

comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures Amendments regarding the sale or contribution of assets between an investor and its associate or

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joint venture. This amendment has no impact to the Group as the Group does not plan to make any sales or contribution of assets to its associates or joint ventures during the period (effective for annual periods beginning on or after January 1, 2016).

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures Amendments regarding the application of the consolidation exception by investment entities. This amendment has no impact to the Group as it is not an investment entity (effective for annual periods beginning on or after January 1, 2016).

IFRS 11 Joint Arrangements Amendments regarding the accounting for acquisitions of an interest in a joint operation. Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 (effective for annual periods beginning on or after January 1, 2016). This amendment has no impact to the Group as the Group does not plan to acquire an interest in joint operations.

IAS 1 Presentation of Financial Statements Amendments resulting from the disclosure initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2016).

IAS 16 Property, Plant and Equipment and IAS 38 Intangibles Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment. This amendment has no impact to the Group as the Group does not use revenue-based methods to depreciate/amortise its non-current assets (effective for annual periods beginning on or after January 1, 2016).

IAS 7 Statement of Cash Flows Amendments resulting from the disclosure initiative The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2017).

IFRS 15 Revenue from Contracts with Customers. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after January 1, 2018). The Group is currently in the process of assessing the impact of adoption of IFRS 15 on the Group's consolidated financial statements.

IFRS 16 Leases, IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases

unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after January 1, 2019). The Group is currently in the process of assessing the impact of adoption of IFRS 16 on the Group's consolidated financial statements.

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Annual Improvements to IFRSs 2012-2014 Cycle

The September 2014 Annual Improvements to IFRSs is a collection of amendments to IFRSs in response to four standards. These improvements are effective from January 1, 2016 and are not expected to have a material impact on the Group. It includes the following amendments:

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations Changes in methods of disposal

IFRS 7 Financial Instruments: Disclosures Servicing Contracts and Applicability of the Amendments to IFRS 7 to Condensed Interim Financial Statements

IAS 19 Employee Benefits Discount Rate: Regional Market Issue

IAS 34 Interim Financial Reporting Disclosure of Information Elsewhere in the Interim Financial Report.

4. Going concern

The current economic environment and economic conditions in the major segments of the Group's operations create uncertainty about the level of demand for the Group's products, the pricing of major products mined or manufactured by the Group and the availability of financing.

As of December 31, 2015, the Group's total liabilities exceeded total assets by RUB 261,854 million.

As of December 31, 2015, the Group was not in compliance with a number of financial and non-financial covenants contained in the Group's loan agreements relating to RUB 468,872 million of the Group's debt. As of December 31, 2015, the Group had RUB 491,674 million of loans repayable during 2016 including RUB 175,743 million of long-term debt classified as short-term debt as of that date because of the covenant violations, and RUB 20,206 million of fines and penalties accrued on overdue loans and overdue interest. As of the date of approval of the consolidated financial statements, these breaches constitute an event of default and as a result, the lenders may request accelerated repayment of a substantial portion of the Group's debt. The Group does not have the resources to enable it to comply with such accelerated repayment requests immediately. However, the Group's management believes that the major part of the Group's debt has been extended as of the date of approval of the consolidated financial statements and the Group will pursue to reach similar terms with other lenders.

By the date of approval of the consolidated financial statements, the Group signed amendment agreements with its three major lenders, which waived all previous defaults. Such amendments were conditional upon undertakings, which the Group had partially managed to fulfill before the date hereof (see Note 30).

The management has concluded that the existing uncertainty about the Group's refinancing and restructuring of its outstanding debt described above represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Based on management's plans and actions undertaken as noted herein, management believes that the Group will achieve restructuring with all of its lenders and secure adequate financing to continue in operational existence for the foreseeable future. The management's strategy includes enhancement of sales of the major steel products as well as diversifying into specialty products targeting higher marginal market niches. Together with the further development of the Group's mining assets providing additional high-grade coking coal and pulverized coal injection (PCI) both to the Russian consumers and to

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exports markets the Group expects it to result in increase in profitability. The Group's detailed monthly operational plans include further optimization of the costs structure and on-going control over the production costs and commercial expenses.

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities or any other adjustments that might result in the Group being unable to continue as a going concern.

5. Capital management

The equity capital of the Group was formed by injecting shares of its operating subsidiaries into Mechel PAO. This together with robust and growing profits allowed the Group to raise debt to finance major development projects as well as to finance metallurgical market expansion to Europe. Although it has always been the Group's priority to create and grow the shareholders' value, during the past few years, the Group has become more focused on managing its debt which has been the major source for expansion and growth.

Metals and mining industry is known for its capital intensive investment cycle requiring secure long-term financing. Together with high volatility on the coal seaborne market and volatile constructive materials market, both significantly influenced by the development of the Chinese economy and its recent demand slow-down, and inability of the Russian debt markets to provide long-term financing at reasonable cost, this has become the major reason for the losses incurred by the Group, which resulted in negative equity and augmented debt burden.

Given current economic circumstances and the amount of debt, the Group's primary objective is to settle the debt issues through a long-term restructuring of the loan portfolio bringing down both cost of financing and actual interest payments.

The Group's capital management has always been based on a number of covenants, of which Net Debt to EBITDA and EBITDA to Net Interest Expense are the main indicators the management uses for control.

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2015:

Restrictive covenant	Requirement	Actual as of December 31, 2015
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.15:1.0	0.8:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 0.9:1.0	0.8:1.0

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Mechel's Net Debt to EBITDA	Not exceed 9.75:1.0	11.2:1.0
Mechel's Total Debt to EBITDA	Not exceed 9.5:1.0	11.2:1.0

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2014:

Restrictive covenant	Requirement	Actual as of December 31, 2014
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.0:1.0-1.2:1.0	0.8:1.0-0.9:1.0
Mechel's Net Debt to EBITDA	Not exceed 10.0:1.0	10.3:1.0-10.4:1.0

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In 2014, following a sudden fall of the markets the Group violated most of such covenants and defaulted on major credit facilities. That brought the Group to a situation where it vitally needs to significantly improve the debt maturity profile. Current restructuring arrangements with major creditors are aimed at adjourning repayment of principal and decreasing interest payments by capitalizing significant amount of related interest expense.

Nominal cost of debt is also important in the Group's capital management. Throughout the restructuring process the Group turned away from the floating interest rates dependent on the Russian money market (Mosprime rate) in favor of the Russian Central Bank Key Rate, which is less volatile and better represents the cost of funds by the banks from the Central Bank of Russian Federation in the Russian economy. The management believes that it will allow the Group to avoid sudden splashes in the cost of debt due to temporary demand/supply fluctuations. On the foreign currency indebtedness the Group's finance cost is also based on the floating LIBOR/EURIBOR, which remains comparatively low.

While the main goal for the Group is to revise the loan portfolio and provide for the improved debt service, the Group is also considering selling certain assets to bring the debt burden down in the short to mid-term run. There is no specific plan or list of such assets and it may further be elaborated as a result of restructuring and negotiations with the lenders.

On April 1, 2016, the Group signed several agreements to provide Gazprombank with an option to purchase 49% share in the Elga coal complex for a total consideration of RUB 34,300 million. Proceeds from the sale will be used for repayment of the Group's debt assigned from Sberbank to Gazprombank (or their respective assignees), and to Sberbank and Sberbank Leasing (See Note 30).

The objectives, policies and processes for managing capital during the years ended December 31, 2015, 2014 and as of January 1, 2014 are not changed.

6. Business combinations and acquisition of non-controlling interests

There were no new business combinations in the years ended December 31, 2014 and 2015.

On December 22, 2011, the Group acquired 100% of the shares of Daveze Ltd, which held 100% of ownership interest in Donetsk Electrometallurgical Plant (DEMP), a steel plant located in Donetsk, Ukraine, for a consideration of \$537,000 thousand (RUB 17,058 million at exchange rate as of December 22, 2011) to be paid in monthly installments during the period from December 2011 until December 2018. The Group continues to pay monthly installments and has paid RUB 4,819 million during 2015, as disclosed in the consolidated statement of cash flows.

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The following table summarizes changes in non-controlling interests for the years ended December 31, 2014 and 2015:

Balance at January 1, 2014	9,500
Effect from disposal of subsidiaries	4
Dividends declared to non-controlling interest	(2)
Loss for the period	(1,263)
Other comprehensive income/(loss)	14
Balance at December 31, 2014	8,253
Change of non-controlling interest in existing subsidiaries by the Group (see Note 26).	(2,842)
Profit for the period	535
Other comprehensive income/(loss)	2
Balance at December 31, 2015	5,948

7. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	Voting rights		
		At December 31, 2015	At December 31, 2014	At January 1, 2014
SKCC and subsidiaries*	Russia	3,41%	3,41%	3,40%
Kuzbass Power Sales Company (KPSC)	Russia	27,86%	27,86%	27,86%
Chelyabinsk Metallurgical Plant (CMP)	Russia	5,86%	5,86%	5,86%
Southern Urals Nickel Plant (SUNP)	Russia	15,90%	15,94%	15,94%
Beloretsk Metallurgical Plant (BMP)	Russia	8,55%	8,55%	8,55%
Korshunov Mining Plant (KMP)	Russia	9,96%	9,96%	9,96%

Ural Stampings Plant (USP)	Russia	6,24%	6,24%	6,24%
Izhstal	Russia	10,00%	10,00%	10,00%

* Hereinafter SKCC and subsidiaries are represented by Southern Kuzbass Coal Company (SKCC), Tomusinsky Open Pit Mine (TOPM), Tomusinsky Energoupravlenie

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	At December 31, 2015	At December 31, 2014	At January 1, 2014
Carrying values of material non-controlling interest:			
SKCC and subsidiaries	(576)	2,841	4,089
Kuzbass Power Sales Company (KPSC)	1,021	866	749
Chelyabinsk Metallurgical Plant (CMP)	514	381	520
Southern Urals Nickel Plant (SUNP)	1,028	950	649
Beloretsk Metallurgical Plant (BMP)	761	605	492
Korshunov Mining Plant (KMP)	2,670	2,555	2,289
Ural Stampings Plant (USP)	939	876	715
Izhstal	(495)	(907)	(87)
(Loss) profit allocated to material non-controlling interest:	2015	2014	
SKCC and subsidiaries	(565)	(1,263)	
Kuzbass Power Sales Company (KPSC)	155	116	
Chelyabinsk Metallurgical Plant (CMP)	135	(137)	
Beloretsk Metallurgical Plant (BMP)	157	112	
Korshunov Mining Plant (KMP)	114	262	
Ural Stampings Plant (USP)	63	161	
Izhstal	413	(822)	

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations. SUNP was recognised as abandoned operations according to a decision to close SUNP without sale (see Note 17). Therefore, SUNP is not disclosed in summarized statements of profit (loss) and other comprehensive income (loss) for the years ended December 31, 2015 and 2014 below. Profit allocated to SUNP's non-controlling interest holders is RUB 80 million and RUB 301 million for the years ended December 31, 2015 and 2014, respectively. SUNP's non-controlling interest is disclosed in statements of financial position as of December 31, 2015, 2014 and January 1, 2014 (see below).

Summarised statements of profit (loss) and other comprehensive income (loss) for 2015:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue	31,169	20,723	96,126	23,605	7,784	12,591	9,902
Cost of goods sold	(19,842)	(11,268)	(78,995)	(21,518)	(6,400)	(9,663)	(8,589)
Total selling, distribution and operating expenses, net	(6,324)	(8,924)	(6,425)	(2,028)	(3,004)	(3,212)	5,088
Total other income and (expense), net	(27,907)	167	(9,074)	1,739	2,741	998	(1,543)

(Loss) profit before tax	(22,904)	698	1,632	1,798	1,121	714	4,858
Income tax	(3,432)	(141)	665	37	26	298	(730)
(Loss) profit for the year from continuing operations	(26,336)	557	2,297	1,835	1,147	1,012	4,128
Total comprehensive (loss) income	(26,336)	557	2,297	1,835	1,147	1,012	4,128
Attributable to non-controlling interests	(565)	155	135	157	114	63	413
Dividends paid to non-controlling interests	68						

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Summarised statements of profit (loss) and other comprehensive income (loss) for 2014:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue	26,584	19,037	87,866	22,253	9,688	12,792	9,131
Cost of sales	(18,835)	(9,737)	(72,198)	(20,094)	(6,301)	(9,997)	(8,964)
Total selling, distribution and operating expenses, net	(7,649)	(8,920)	(6,557)	(2,022)	(3,196)	(1,376)	(7,466)
Total other income and (expense), net	(37,802)	150	(10,232)	1,126	2,502	1,099	(1,739)
(Loss) profit before tax	(37,702)	530	(1,121)	1,263	2,693	2,518	(9,038)
Income tax	2,921	(114)	(1,213)	50	(58)	64	819
(Loss) profit for the year from continuing operations	(34,781)	416	(2,334)	1,313	2,635	2,582	(8,219)
Total comprehensive (loss) income	(34,781)	416	(2,334)	1,313	2,635	2,582	(8,219)
Attributable to non-controlling interests	(1,263)	116	(137)	112	262	161	(822)
Dividends paid to non-controlling interests							

Summarised statements of financial position as of December 31, 2015:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	81,248	5,095	46,932	4,646	11,479	18,357	14,611	2,961
Non-current assets	61,713	1,235	61,183	2,345	3,449	11,961	7,437	5,972
Current liabilities	(168,615)	(2,559)	(96,666)	(318)	(5,891)	(2,622)	(6,935)	(11,678)
Non-current liabilities	(3,355)	(107)	(2,678)	(211)	(143)	(873)	(48)	(2,209)
Total equity	(29,009)	3,664	8,771	6,462	8,894	26,823	15,065	(4,954)
Attributable to:								
Equity holders of parent	(28,433)	2,643	8,257	5,434	8,133	24,153	14,126	(4,459)

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Non-controlling interest (576) 1,021 514 1,028 761 2,670 939 (495)
 Summarised statements of financial position as of December 31, 2014:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	78,972	2,605	23,836	1,573	11,572	14,293	10,091	2,702
Non-current assets	47,305	2,735	63,449	4,961	1,691	15,264	8,573	15
Current liabilities	(126,201)	(2,134)	(77,488)	(399)	(6,044)	(2,898)	(4,388)	(8,901)
Non-current liabilities	(2,625)	(98)	(3,286)	(174)	(152)	(994)	(221)	(2,887)
Total equity	(2,549)	3,108	6,511	5,961	7,067	25,665	14,055	(9,071)
Attributable to:								
Equity holders of parent	(5,390)	2,242	6,130	5,011	6,462	23,110	13,179	(8,164)
Non-controlling interest	2,841	866	381	950	605	2,555	876	(907)

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Summarised statements of financial position as of January 1, 2014:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	58,177	2,120	18,072	4,935	7,089	18,766	11,418	2,929
Non-current assets	55,080	2,221	52,155	26	3,691	9,127	3,425	7,368
Current liabilities	(75,143)	(1,529)	(58,886)	(500)	(4,772)	(3,765)	(3,086)	(8,024)
Non-current liabilities	(6,063)	(123)	(2,470)	(390)	(253)	(1,130)	(285)	(3,139)
Total equity	32,051	2,689	8,871	4,071	5,755	22,998	11,472	(866)

Attributable to:

Equity holders of parent	27,962	1,940	8,351	3,422	5,263	20,709	10,757	(779)
Non-controlling interest	4,089	749	520	649	492	2,289	715	(87)

Summarised cash flow information for the year ended December 31, 2015:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	10,649	545	1,102	1,768	(637)	2,725	(125)
Investing	(11,834)	(608)	(13,738)	267	876	(5,047)	(34)
Financing	1,340	103	12,159	(1,881)	(284)	2,023	172
Increase (decrease) in cash and cash equivalents, net	155	40	(477)	154	(45)	(299)	13

Summarised cash flow information for the year ended December 31, 2014:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	14,755	109	14,053	2,253	7,287	2,262	(756)
Investing	(18,094)	(580)	(18,740)	(1,947)	(7,278)	(2,921)	(49)

Financing	380	447	5,175	(392)	(13)	997	773
Increase (decrease) in cash and cash equivalents, net	(2,959)	(24)	488	(86)	(4)	338	(32)

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(All amounts are in millions of Russian rubles, unless stated otherwise)

8. Investments in associates

Investments in associates are comprised of:

Investee	Percent voting shares held at			Investment carrying value at		
	December 31, 2015	December 31, 2014	January 1, 2014	December 31, 2015	December 31, 2014	January 1, 2014
Mechel Somani Carbon (Mining segment)	51%	51%	51%	45	39	17
TPTU (Mining segment)	40%	40%	40%	157	155	148
TRMZ (Mining segment)	25%	25%	25%	82	80	79
BWS Bewehrungsstahl GmbH (Steel segment)			36%			7
Total Investments in associates				284	274	251

Mechel Somani Carbon Private Limited shares are owned by Mechel Carbon AG. The core business is distribution of metallurgical coals on the Indian market. Despite the ownership of 51% of Mechel Somani Carbon shares the Group cannot exercise control over the company.

TPTU (Tomusinskiy Transportation Management Center) shares are owned by SKCC. The core business is provision of transportation services both to the Group's subsidiaries and third parties.

TRMZ (Tomusinskiy Auto Repair Shop) shares are owned by SKCC. TRMZ provides repair services to the Group's subsidiaries.

The core business of BWS Bewehrungsstahl GmbH is cutting and processing steel products. Cognor owned 36% of the shares of BWS Bewehrungsstahl GmbH until December 15, 2014. The shares of BWS Bewehrungsstahl GmbH were sold by the Group to third parties for the consideration of EUR 70 thousand (RUB 5 million at exchange rate as of December 15, 2014).

The following table shows movements in the investments in associates:

Mechel Somani Carbon Private Limited (Mining segment)	TPTU (Mining segment)	TRMZ (Mining segment)	BWS Bewehrungsstahl GmbH (Austria)	Total
---	-----------------------	-----------------------	------------------------------------	-------

				(Steel segment)	
January 1, 2014	17	148	79	7	251
Share of profit (loss)	6	7	1	(7)	7
Disposal of investments				(1)	(1)
Exchange differences	16			1	17
December 31, 2014	39	155	80		274
Share of (loss) profit	(5)	2	3		
Exchange differences	10				10
December 31, 2015	44	157	83		284

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Summarized financial information on equity method investees as of December 31, 2015, 2014 and for the years then ended and as of January 1, 2014 is as follows:

Statement of financial position information	December 31, 2015	December 31, 2014	January 1, 2014
Current assets	929	801	804
Non-current assets	295	309	312
Current liabilities	(371)	(303)	(354)
Non-current liabilities	(19)	(21)	(20)
Statement of profit (loss) information		2015	2014
Revenues and other income		1,158	1,408
Operating income		70	44
Net income		36	19

9. First-time adoption of IFRS

The accompanying financial statements for the year ended December 31, 2015 are the first the Group has prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2014. For periods up to and including the year ended December 31, 2014, the Group prepared its consolidated financial statements in accordance with U.S. GAAP.

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as of December 31, 2015, together with the comparative period data for the year ended December 31, 2014, as described in the summary of significant accounting policies (Note 3). In preparing the financial statements, the Group's opening consolidated statement of financial position was prepared as of January 1, 2014, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in representing its U.S. GAAP financial statements, including the statement of financial position as of January 1, 2014 and the financial statements for the year ended December 31, 2014, in order to comply with IFRS.

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

assets and liabilities denominated in currencies other than Russian ruble were translated into Russian rubles at the closing rates of exchange on the relevant balance sheet date;

income and expenditure denominated in currencies other than Russian ruble were translated at the average rates of exchange prevailing for the relevant period;

the cumulative translation reserves were set to nil as of January 1, 2014, the date of transition to IFRS. Share capital, share premium and other reserves were translated at the historical rates, and subsequent rates prevailing on the date of each transaction.

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Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

As a first-time adopter of IFRS, the Group applied IFRS 1 First-time Adoption of International Financial Reporting Standards. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS, which the Group has applied as of January 1, 2014.

The Group has applied the mandatory exceptions and certain optional exemptions as set out below:

Business combinations The Group has not applied IFRS 3 Business Combinations retrospectively to the business combinations that occurred before the date of transition to IFRS. As a result, assets recognized and liabilities assumed in the past business combinations under U.S. GAAP have remained unchanged at the date of transition, except for the changes described in the notes below.

Currency translation differences The Group has used the IFRS 1 exemption relating to IAS 21 The Effects of Changes in Foreign Exchange Rates. As a result, the cumulative translation differences for all foreign operations of the Group were set to be zero at the date of transition. The gain or loss on a subsequent disposal of any foreign operations will include only exchange differences that arose after the date of transition.

Borrowing costs The Group has applied the transitional provisions in IAS 23 Borrowing Costs, and capitalised borrowing costs on qualifying assets after the date of transition, and where the construction was commenced as of and after the date of transition to IFRS according to IAS 23 Borrowing Costs. Borrowing costs capitalised under U.S. GAAP prior to the date of transition have not been adjusted.

Rehabilitation provision The Group has elected to use the IFRS 1 exemption relating to recognition of changes in the measurement of rehabilitation provision and therefore measures those in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities as of January 1, 2014.

Pension obligations The Group has elected to recognize all cumulative actuarial gains and losses as at the date of transition in retained earnings. The Group is not required to re-compute the unrecognized portion of actuarial gains and losses from the inception of the defined benefit plans. Instead, the Group applies IAS 19 Employee Benefits from the date of transition. Therefore, at the date of transition, the Group recognizes the pension obligations in accordance with IAS 19 Employee Benefits and no unrecognized actuarial gains and losses are presented at the transition date.

Estimates The estimates as of January 1, 2014 and December 31, 2014 are consistent with those made as of the same dates in accordance with U.S. GAAP apart from the estimates described above.

Changes in the presentation (CP) The Group changed the presentation of certain items in the consolidated statement of financial position and statement of profit (loss) and comprehensive income (loss) as compared to the presentation under the previously issued U.S. GAAP financial statements. The most significant changes in the presentation related to:

CP(1) Other accounts receivable (RUB 1,920 million as of January 1, 2014 and RUB 932 million as of December 31, 2014) are presented within Trade and other receivables in the consolidated statement of financial position. Under U.S. GAAP, the Group reflected Other accounts receivables within Other current assets.

CP(2) Income tax receivable (RUB 2,936 million as of January 1, 2014 and RUB 578 million as of December 31, 2014) is presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Prepayments and other current assets.

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CP(3) Other current financial assets (RUB 360 million as of January 1, 2014 and RUB 186 million as of December 31, 2014) are presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, Other current financial assets were reflected within Prepayments and other current assets.

CP(4) Interest payable (RUB 2,051 million as of January 1, 2014 and RUB 14,615 million as of December 31, 2014) is presented as part of Interest-bearing loans and borrowings in the consolidated statement of financial position. Under U.S. GAAP, Interest payable was reflected within Accrued expenses and Other current liabilities.

CP(5) Rehabilitation provision (non-current portion of RUB 1,655 million and current portion of RUB 66 million as of January 1, 2014, non-current portion of RUB 2,459 million and current portion of RUB 195 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Rehabilitation provision was presented as a separate item.

CP(6) Provision for taxes other than income tax (RUB 521 million as of January 1, 2014 and RUB 769 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Provision for taxes other than income tax, was reflected within Taxes and social charges payable.

CP(7) Accrual for unused vacation (RUB 1,618 million as of January 1, 2014 and RUB 1,651 million as of December 31, 2014) is presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, it was presented within Accrued expenses and other current liabilities.

CP(8) Dividends payable (RUB 108 million as of January 1, 2014 and RUB 104 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, Dividends payable were reflected as a separate item.

CP(9) Other current liabilities (RUB 7,233 million as of January 1, 2014 and RUB 27,989 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, they were reflected as a separate item.

CP(10) Provision for taxes and other provisions (RUB 325 million as of January 1, 2014 and RUB 1,285 million as of December 31, 2014) are presented within Provisions in the consolidated statement of financial position. Under U.S. GAAP, they were reflected within Accrued expenses and other current liabilities.

CP(11) Income tax payable (RUB 594 million as of January 1, 2014 and RUB 1,272 million as of December 31, 2014) is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, Income tax payable was reflected within Taxes and social charges payable. Long-term income tax payable in the amount of RUB 3,447 million as of December 31, 2014 is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Other non-current liabilities.

CP(12) The Group adopted net presentation of the input and output VAT on advances against advances issued and received for the purpose of harmonization with the RAS. Under U.S. GAAP, the Group presented advances and related VAT on advances in gross amounts. The effect of the changes was as follows:

As of the date of transition to IFRS, it resulted in the decrease in advances received from related parties of RUB 71 million, decrease in advances issued and VAT on advances received included in Other

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current assets line in the amount of RUB 623 million, decrease in advances received of RUB 302 million and decrease in VAT on advances issued within Tax payable other than income tax of RUB 392 million;

As of December 31, 2014, it resulted in the decrease in advances issued and VAT on advances received included in Other current assets in the amount of RUB 536 million, decrease in Advances received of RUB 292 million and VAT on advances within Tax payable other than income tax of RUB 244 million.

CP(13) Other operating income is presented as a separate item (RUB 851 million for the year ended December 31, 2014) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected within Administrative and other operating expenses, net.

CP(14) The Group presented Other non-current financial assets in a separate line in the statement of financial position. Under U.S. GAAP financial statements, these assets were included in Other non-current assets in the amount of RUB 201 million and RUB 59 million as of December 31, 2014 and January 1, 2014, correspondingly. Investments in associates are presented within Other non-current financial assets. Under U.S. GAAP, they were reflected within Investments in associates (RUB 72 million as of December 31, 2014).

CP(15) The Group presents provisions for legal claims (RUB 367 million as of January 1, 2014 and RUB 36 million as of December 31, 2014) as part of Provisions. Under U.S. GAAP, they were reflected within Other payables.

CP(16) Other income and Other expenses are presented as separate lines (RUB 684 million and RUB 1,486 million, for the year ended December 31, 2014, respectively) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected together.

Additionally, certain reclassifications have been made to the December 31, 2014 consolidated statement of financial position to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated statement of financial position, and have no impact on net income or equity of the Group.

Adjustments, reclassifications and remeasurement made in order to comply with IFRS

Property, plant and equipment and mineral licenses The Group's property, plant and equipment and mineral licenses are recorded at historical cost of acquisition. To arrive at IFRS historical cost the Group used the historical cost of property, plant and equipment and mineral licenses in accordance with U.S. GAAP as the Group believes that it reasonably approximates historical values in accordance with IFRS, and adjusted it through retrospective application of the requirements of IAS 16 Property, Plant and Equipment, IAS 36 Impairment of Assets and IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities as described in Notes C, E, F below.

A Debt issuance costs

In accordance with IFRS, fees paid on origination of loan facilities are recognized as transaction costs which are deducted from outstanding debt and are amortized using the effective interest rate method. Under U.S. GAAP, debt issuance costs were capitalized as a separate asset and included in Other current or non-current assets and then amortized using the effective interest rate method. The amounts reclassified from other current and non-current assets to re-measure debt liabilities in order to comply with IFRS requirements comprised RUB 2,766 million (current portion of RUB 2,743 million and non-current portion of RUB 23 million) and

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RUB 4,409 million (current portion of RUB 1,730 million and non-current portion of RUB 2,679 million) as of December 31, 2014 and January 1, 2014, respectively. The differences in effective interest rate method calculations under IFRS and U.S. GAAP resulted in a RUB 1,051 million decrease in the balance of Interest-bearing loans and borrowings and corresponding decrease in Foreign exchange gain (loss), net in the consolidated statement of profit (loss) and other comprehensive income (loss).

B Exchange differences

Under U.S. GAAP, the Group recognized exchange differences on foreign operations in a separate component of equity. Exchange differences for all foreign operations are deemed to be zero as at the date of transition in order to comply with IFRS requirements. A reclassification in equity from Accumulated other comprehensive income (loss) to Accumulated losses of RUB 13,568 million was made as of January 1, 2014.

C Rehabilitation provision expenses

According to U.S. GAAP, rehabilitation provision (asset retirement obligations) was measured based on the estimated cost of rehabilitation, discounted to its net present value upon recognition. Adjustments to discount rate were not reflected in the provisions under U.S. GAAP unless there was an upward revision in the future cost estimates. The Group has taken the exemption and applied IFRIC 1 Changes in the Existing Decommissioning, Restoration and Similar Liabilities; correspondingly, the rehabilitation provision as of January 1, 2014 was revalued using current discount rate as of that date. In the subsequent periods, the rehabilitation provision was remeasured using the current discount rate as of the end of each reporting period. This resulted in the following differences between rehabilitation provision recorded in the consolidated financial statements under IFRS and amounts reported under U.S. GAAP:

As of January 1, 2014: increase in Current rehabilitation provision in the amount of RUB 31 million, increase in Non-current rehabilitation provision in the amount of RUB 2,433 million, increase in Property, plant and equipment in the amount of RUB 1,057 million;

As of December 31, 2014: increase in Current rehabilitation provision in the amount of RUB 6 million, increase in non-current rehabilitation provision in the amount of RUB 539 million, decrease in Property, plant and equipment in the amount of RUB 637 million; increase in assets and liabilities classified as held for sale in the amount of RUB 170 million;

Accretion expense is presented within Finance costs under IFRS. Under U.S. GAAP it was presented as a separate line Accretion expenses. Accretion expense amounted to RUB 191 million under U.S. GAAP and RUB 256 million under IFRS for the period ended December 31, 2014;

The difference in Rehabilitation provision methodology between U.S. GAAP and IFRS as described above resulted in the increase in Loss from discontinued operations related to SUNP in the amount of RUB 264 million under U.S. GAAP for the year ended December 31, 2014 (Note 17).

D Actuarial gains and losses

At the date of transition to IFRS, the Group recognized actuarial gain/loss accumulated in prior period in retained earnings. Under IFRS, all prior service costs (positive or negative) are recognized in profit or loss when the employee benefit plan is amended and are not allowed to be spread over any future service period, which may create volatility in profit or loss whereas prior service cost is recognized in other comprehensive income/(loss) under U.S. GAAP at the date the plan amendment is adopted and then amortized into income over the participants' remaining years of service, service to full eligibility date, or life expectancy, depending on the facts

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and circumstances. Finally, U.S. GAAP requires a pension contribution tax to be recognized as a component of net benefit cost in the period in which the contribution is made. Under IFRS, taxes related to benefit plans are included in the calculation of the benefit obligation. All above mentioned differences resulted in the following adjustments:

As of January 1, 2014: increase in Current pension obligations and decrease in Non-current pension obligations amounted to RUB 215 million and RUB 74 million, respectively;

As of December 31, 2014: increase in Current pension obligations and Non-current pension obligations amounted to RUB 22 million and RUB 57 million, respectively;

Actuarial gains and losses under the Group's defined benefit plans of RUB 696 million were recycled from other comprehensive income/loss to accumulated losses as of January 1, 2014;

Administrative and other operating expenses increase in the amount of RUB 195 million for the period ended December 31, 2014.

E Impairment of non-current assets and goodwill

Under U.S. GAAP, goodwill is tested for impairment by using a two-step approach. Under the first step, the fair value of a reporting unit is compared to its carrying value. A reporting unit is the level, at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired. Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit's goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

Under IFRS, impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the

time value of money and the risks specific to the assets.

The Group recognized differences related to impairment of non-current assets other than goodwill property, plant and equipment and mineral licenses:

Under U.S. GAAP requirements, in the first step of impairment testing, the carrying value of non-current assets is compared to the undiscounted cash flows of reporting unit, and only if the carrying amount exceeds the undiscounted cash flows, the second step is performed where the carrying amount is compared to the discounted cash flows. Under IFRS requirements, impairment is determined by comparison of the carrying amount to the recoverable amount, which is determined through the use of discounted cash flows. This difference in requirements resulted in the difference in impairment testing of non-current assets of two CGUs the BCG Companies and Ekos-Plus as of January 1, 2014. According to the first step of impairment testing under U.S. GAAP, no excess of the carrying value over the undiscounted cash flows was identified, therefore the second

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step of testing was not performed, and no impairment of non-current assets was recognized. As a result of the impairment test in accordance with IAS 36 Impairment of Assets, excess of the carrying value over the recoverable amount was identified for the BCG Companies in the amount of RUB 40,491 million including impairment of property, plant and equipment of RUB 4,185 million and mineral licenses of RUB 54,862 million, and the respective effect on deferred taxes of RUB 18,556 million; and for Ekos-plus in the amount of RUB 51 million related to property, plant and equipment as of January 1, 2014.

As of December 31, 2014, the BCG Companies were recognized as disposal group classified as held for sale in the consolidated financial statements under IFRS as well as under U.S. GAAP. In the both sets of consolidated financial statements, net assets of the BCG Companies were written down to fair value less cost to sell and, as of December 31, 2014, there is no difference in the carrying value of the BCG Companies' non-current assets between IFRS and U.S. GAAP. A difference arose in the amount of impairment loss recognized by the Group in respect of the BCG Companies in the year ended December 31, 2014, as, under IFRS, impairment was partially recognized at the date of transition, whereas, in the U.S. GAAP financial statements, the total amount of impairment loss was recognized by the Group in the year ended as of December 31, 2014. The difference in Profit (loss) after tax from discontinued operations, net for the year ended December 31, 2014 amounted to RUB 69,424 million. This difference also affected Other comprehensive income (loss) as impairment was recognized in different periods under IFRS and under U.S. GAAP. Effect on currency translation adjustment comprised RUB 28,933 million in the year ended December 31, 2014.

Other difference between IFRS and U.S. GAAP requirements relates to the reversal of previously recognized impairment loss. If there is a change in estimates used to determine the recoverable amount previously recognized impairment loss of property, plant and equipment can be reversed under IFRS whereas no such reversal is allowed according to U.S. GAAP requirements. This difference has affected the value of non-current assets of DEMP. According to U.S. GAAP, the Group recognized impairment loss in the consolidated financial statements as of June 30, 2013. The recoverable value was determined on binding offer from a third party. As of December 31, 2013, the recoverable value of DEMP has increased. According to U.S. GAAP, previously identified impairment loss was not reversed. As of January 1, 2014, according to IFRS requirements, the Group partially reversed impairment loss previously recognized in the amount of RUB 477 million. Due to the difference in the carrying value of DEMP's non-current assets as of January 1, 2014, the difference in impairment loss recognized during the period ended December 31, 2014 arose in the consolidated financial statement under IFRS as compared to those previously prepared in accordance with U.S. GAAP in the amount of RUB 258 million.

F Negative goodwill

In accordance with U.S. GAAP (ASC 805 Business combination), the Group recognized negative goodwill which arose on the Group's business combinations carried out before January 1, 2009 as deferred credit for an excess of net assets acquired over cost and allocated it to the acquired non-current assets except for the deferred taxes. In order to comply with IFRS, the Group derecognized the carrying amount of that deferred credit at the transition date:

As of the date of transition to IFRS, this difference affected Inventories (increase of RUB 189 million), Property, plant and equipment (increase of RUB 3,950 million), Mineral licenses (decrease of RUB 433 million), Deferred tax liabilities (increase of RUB 437 million);

As of December 31, 2014 this difference affected Inventories (increase of RUB 185 million), Property, plant and equipment (increase of RUB 2,449 million), Mineral licenses (decrease of RUB 393 million), Deferred tax liabilities (increase of RUB 163 million);

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For the year ended December 31, 2014, this difference affected Cost of goods sold (increase of RUB 444 million);

For the year ended December 31, 2014, this difference affected Impairment of goodwill and other non-current assets (increase of RUB 973 million).

G Discontinued operations

In accordance with U.S. GAAP, the Group recognized and presented the BCG Companies as disposal group held for sale as of January 1, 2014 in the comparative information to the Group's consolidated financial statements for the year ended December 31, 2014 when criteria for recognition of the BCG Companies as disposal group held for sale were met. Under IFRS, the Group also recognized the BCG Companies as asset held for sale as of December 31, 2014. In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, reclassification of comparative information in the statement of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented is not required, therefore the Group did not amend the presentation of its assets and liabilities in the comparative statement of financial position as of January 1, 2014. The effect of changes related to discontinued operations presentation made to comply with IFRS requirements, is presented in a separate column in the table below.

The Group recognized several subsidiaries as discontinued operations in its previously issued U.S. GAAP consolidated financial statements as of December 31, 2013: TPP Rouse, Invicta, Lomprom Rostov, TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading. These subsidiaries do not meet IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requirements to be recognized as discontinued operations as they do not represent a separate major line of business or geographical area of operations. The Group disposed of all these subsidiaries before December 31, 2013, and residual income and expenses related to these operations were presented as discontinued operations in the U.S. GAAP consolidated financial statements for the year ended December 31, 2014. In these financial statements prepared under IFRS, the Group presents these income and expenses as part of continuing operations. This resulted in the following adjustments to the U.S. GAAP amounts: increase in Revenue of RUB 126 million, increase in Cost of goods sold of RUB 140 million, increase in Allowance for doubtful accounts of RUB 567 million, and increase in Administrative and other operating expenses of RUB 204 million, and respective decrease in Loss from discontinued operations of RUB 785 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS as compared to the consolidated statement of operations under U.S. GAAP for the period ended December 31, 2014.

H Inventory provision

The Group recalculated net realizable value provision in order to comply with IAS 2 Inventories requirements. This resulted in the increase in the Inventories balance in the amount of RUB 166 million as of January 1, 2014 and RUB 193 million as of December 31, 2014, and decrease in Cost of goods sold of RUB 31 million for the year ended December 31, 2014.

I Borrowing costs

The Group recalculated borrowing costs capitalized in accordance with IFRS requirements. The effect of recalculations resulted in the increase in Property, plant and equipment in the amount of RUB 1,194 million as of December 31, 2014 in the consolidated statement of the financial position under IFRS as compared to U.S. GAAP and decrease in Finance costs of RUB 337 million and Foreign exchange gain/loss, net of RUB 857 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS compared to the consolidated statement of operations under U.S. GAAP.

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(All amounts are in millions of Russian rubles, unless stated otherwise)

J Classification of liabilities

As of January 1, 2014, the Group was not in compliance with certain covenants under various credit facilities entered into with several lenders, including certain financial ratios such as EBITDA to Net Interest Expense and Net Debt to EBITDA ratios. In April-May 2014, the lenders provided their consent to waive all breaches. According to U.S. GAAP requirements, when breach of covenants exists at the end of reporting period and lender agrees after the reporting period and before authorization of the financial statements for the issue not to demand the repayment, long-term credit facilities can be classified as non-current. In accordance with IFRS, such credit facilities shall be presented as current at the reporting date, unless waivers were received from lenders before the reporting date. As the Group received consent from the lenders after the reporting date all corresponding liabilities are presented by the Group as current as of January 1, 2014. These liabilities included loans and borrowings for which covenants were breached, and also finance leases and other payables under contracts with cross-default clauses linked to those loans. The effect of this difference was as follows as of January 1, 2014:

Non-current interest-bearing loans and borrowings in the amount of RUB 220,884 million were reclassified to current;

Non-current finance lease liabilities in the amount of RUB 6,744 million were reclassified to current;

Accounts payable under contracts with breached cross-default provisions in the amount of RUB 7,329 million were reclassified to current from non-current liabilities as of January 1, 2014;

As non-current payables were discounted in the U.S. GAAP consolidated financial statements, additional effect of unwinding the discount was recognized by the Group in the IFRS financial statements with an increase of RUB 2,017 million recorded in Trade and other payables line and decrease in Finance costs for the year ended December 31, 2014 in the amount of RUB 2,241 million.

K Deferred taxes

Deferred tax assets and liabilities are treated as non-current under IFRS. Netting is performed for deferred tax assets and liabilities relating to income taxes levied by the same taxation authority on the same taxable entity where the Group has a legally enforceable right to set off current tax assets against current tax liabilities. Under U.S. GAAP, the deferred tax balances were calculated by applying the currently enacted statutory tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse. Deferred tax assets in the amount of RUB 5,132 million as of December 31, 2014 (January 1, 2014: RUB 1,144 million) and deferred tax liabilities in the

amount of RUB 444 million as of December 31, 2014 (January 1, 2014: RUB 1,236 million) were recognized as current under U.S. GAAP. Under IFRS, deferred taxes have been recalculated based on the IFRS net book values of assets and liabilities and are presented as non-current. Deferred tax assets and deferred tax liabilities were offset in the amounts of RUB 7,799 million as of December 31, 2014 (RUB 793 million as of January 1, 2014).

The main differences in deferred tax amounts calculated under IFRS and deferred tax amounts calculated under U.S. GAAP were due to the following:

Decrease in deferred tax liabilities of RUB 18,556 million related to impairment of the BCG Companies recognized in the IFRS financial statements as of January 1, 2014 (refer to note E Impairment of non-current assets and goodwill above);

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(All amounts are in millions of Russian rubles, unless stated otherwise)

Decrease in deferred tax liabilities of RUB 266 million as of January 1, 2014 and RUB 236 million as of December 31, 2014, respectively, due to changes in rehabilitation provision (refer to note C Rehabilitation provision expenses above);

Increase in deferred tax liabilities of RUB 437 million and RUB 163 million related to differences in the carrying values of property, plant and equipment and mineral licenses (refer to note F Negative goodwill above);

Changes in debt issuance costs under IFRS and U.S. GAAP (refer to Note A Debt issuance costs) resulted in difference between U.S. GAAP and IFRS deferred taxes of RUB 208 million as of December 31, 2014.

The aggregate decrease in deferred tax benefit of RUB 361 million for the year ended December 31, 2014 is the result of all adjustments described in the notes A-L and N.

L Retained earnings and Non-controlling interest

Adjustments and re-measurements made by the Group as of January 1, 2014 in order to comply with IFRS requirements resulted in the increase in Accumulated deficit by RUB 52,781 million. This also had effect on net assets of subsidiaries and respective non-controlling interests.

M The consolidated statement of cash flows

M1 Under IFRS, Finance income is reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M2 Under IFRS, Finance costs are reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M3 Under IFRS, Interest received is reflected as a separate item within Changes in working capital.

M4 Under IFRS, Interest paid is reflected as a separate item within Changes in working capital.

M5 Under IFRS, Income taxes paid are reflected as a separate item within Changes in working capital.

M6 Under IFRS, Interest paid, capitalized is presented as a separate item. Under U.S. GAAP, it was reflected within Purchases of property, plant and equipment.

M7 Under IFRS, overdrafts are accounted for as cash equivalents. Under U.S. GAAP, cash flows from overdrafts were included in cash flows from financing activity on a net basis.

N Former related parties

Under U.S. GAAP (ASC 810 Consolidation), the Group determined certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders (the former Estar metallurgical plants) as Variable Interest Entities (VIEs). The Group is not the primary beneficiary of the former Estar metallurgical plants and the former Estar metallurgical plants were defined as related parties in previously issued U.S. GAAP consolidated financial statements as of December 31, 2014 and January 1, 2014. While under IFRS 12 Disclosure of Interests in Other Entities, an

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(All amounts are in millions of Russian rubles, unless stated otherwise)

interest in an unconsolidated structured entity as defined by held by a reporting entity does not make the structured entity a related party to the reporting entity unless it would otherwise meet the definition of a related party (e.g. because the structured entity is an associate of the reporting entity). Accordingly, in the accompanying consolidated financial statements, the former Estar metallurgical plants are recognized as third parties. The main effects of this difference were as follows:

As of January 1, 2014, this difference affected Trade and other receivables (increase of RUB 1,138 million), Amounts due from related parties, net of allowance (decrease of RUB 1,574 million), Other current assets (increase of RUB 436 million), Trade and other payables (increase of RUB 2,476 million), and Amounts due to related parties (decrease of RUB 2,476 million);

As of December 31, 2014, this difference affected Trade and other receivables (increase of RUB 379 million), Amounts due from related parties, net of allowance (decrease of RUB 379 million), Trade and other payables (increase of RUB 828 million), and Amounts due to related parties (decrease of RUB 828 million);

This difference affected Allowance for doubtful accounts (increase of RUB 1,696 million) and Provision for amounts due from related parties (decrease of RUB 1,696 million) for the year ended December 31, 2014. Other adjustments made by the Group to the U.S. GAAP amounts in order to meet IFRS requirements, which are not described above were insignificant.

Reconciliation of equity as of January 1, 2014 (date of transition to IFRS):

	Notes	U.S. GAAP Thousands of U.S. dollars	U.S. GAAP ¹ Millions of Russian rubles ¹	U.S. GAAP component classified	Changes in the presentation ²	Adjustments and reclassifications / measurements	IFRS
				Note G			
Assets							
Current Assets							

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Cash and cash equivalents		272,936	8,927	52			8,979
Trade and other receivables	N,CP(1)	587,999	19,242	177	1,920	1,138	22,477
Due from related parties, net of allowance	N,CP(12)	56,792	1,859		(71)	(1,592)	196
U.S. GAAP Deferred income taxes	K	25,092	821	323		(1,144)	
Inventories	F,H	1,407,868	46,044	177		408	46,629
Income tax receivables	CP(2)				2,936		2,936
Other current financial assets	CP(3)				360		360
Other current assets	A,N,CP(1)-(3),CP(12)	439,624	14,327	94	(5,839)	(1,357)	7,225
U.S. GAAP Current assets of discontinued operations	G	25,159	823	(823)			
Total current assets		2,815,470	92,043		(694)	(2,547)	88,802

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		U.S. GAAP Thousands of U.S. dollars	U.S. GAAPs Millions of Russian rubles ¹	U.S. GAAP component classified as discontinued operations Note G	Changes in presentation	Adjustments and reclassifications / remeasurements	IFRS
	Notes						
Non-current assets							
Property, plant and equipment	C,E,F	6,726,116	220,107	4,772		1,374	226,253
Mineral licenses	E,F	1,293,470	42,334	64,724		(55,331)	51,727
Non-current financial assets	CP(14)	14,787	484		59		543
Investments in associates		7,604	249			2	251
Deferred tax assets	K	5,066	166			351	517
Goodwill		687,763	22,510			10	22,520
Other non-current assets	A, CP(14)	127,861	4,184	1,080	(59)	(2,724)	2,481
U.S. GAAP Non-current assets of discontinued operations	G	2,156,373	70,576	(70,576)			
Total non-current assets		11,019,040	360,610			(56,318)	304,292
Total assets		13,834,510	452,653		(694)	(58,865)	393,094
Equity and liabilities							
Current liabilities							
Interest-bearing loans and borrowings	CP(4),A,J	1,478,154	48,297	221	2,051	216,509	267,078
Trade and other payables	J,N, CP(7), CP(8),CP(9) CP(15)	929,375	30,393	956	8,757	11,867	51,973

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Advances received	CP(12)	140,919	4,566		(302)	26	4,290
Due to related parties	N	106,943	3,500			(2,476)	1,024
Provisions	C,CP(6), CP(10), CP(15)	2,001	65	213	1,213	40	1,531
Pension obligations	D	18,578	607	59		211	877
Finance lease liabilities	J	122,754	4,018	2		6,789	10,809
Income tax payable	CP(11)	78,332	2,560		594	19	3,173
Tax payable other than income tax	CP(6), CP(11),CP(12)	264,861	8,672	440	(1,672)		7,440
U.S. GAAP							
Dividends payable	CP(8)	3,293	108		(108)		
U.S. GAAP							
Deferred income taxes	K	37,775	1,236			(1,236)	
U.S. GAAP							
Accrued expenses and other current liabilities	CP(4), CP(7), CP(9), CP(10)	343,457	11,241		(11,227)	(14)	
U.S. GAAP							
Current liabilities of discontinued operations	G	57,781	1,891	(1,891)			

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

		U.S. GAAP Thousands of U.S. dollars	U.S. GAAP as Millions of Russian rubles ¹	U.S. GAAP component classified as discontinued Note G	Changes in the presentation	Adjustments and reclassifications / measurements	IFRS
	Notes						
Other current liabilities						29	29
Total current liabilities		3,584,223	117,154		(694)	231,764	348,224
Non-current liabilities							
Interest-bearing loans and borrowings	A,J	7,513,277	245,904	227		(220,880)	25,251
Provisions	C	50,567	1,655	215		2,433	4,303
Pension obligations	D	104,525	3,412	1,552		(61)	4,903
Finance lease liabilities	J	296,875	9,717			(6,744)	2,973
Deferred tax liabilities	K	506,241	16,569	18,871		(17,965)	17,475
Other non-current liabilities	J	293,370	9,601	1,181		(7,329)	3,453
U.S. GAAP Long-term liabilities of discontinued operations	G	673,591	22,046	(22,046)			
Due to related parties		21	1			(1)	
Total non-current liabilities		9,438,467	308,905			(250,547)	58,358
Total liabilities		13,022,690	426,059		(694)	(18,783)	406,582
Equity							
Common shares		133,507	4,163				4,163
Preferred shares		25,314	833				833
		834,118	25,591				25,591

Additional paid-in capital					
Accumulated other comprehensive income (loss)	B,D	(47,601)	(12,844)	12,833	(11)
Accumulated deficit	B,D,L	(427,863)	(783)	(52,781)	(53,564)
Equity attributable to equity shareholders of Mechel PAO		517,475	16,960	(39,948)	(22,988)
Non-controlling interests	L	294,345	9,634	(134)	9,500
Total equity		811,820	26,594	(40,082)	(13,488)
Total equity and liabilities		13,834,510	452,653	(694)	(58,865)
				393,094	

- ¹ At exchange rates from U.S. Dollar to Russian ruble as of January 1, 2014. The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles.

Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

Reconciliation of equity as of December 31, 2014:

	Notes	U.S. GAAP Thousands of U.S. dollars	U.S. GAAP Millions of Russian rubles	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Assets						
Current Assets						
Cash and cash equivalents		70,800	3,983			3,983
Trade and other receivables	N,CP(1)	330,371	18,586	932	291	19,809
Due from related parties, net of allowance	N	9,303	523		(385)	138
U.S. GAAP Deferred income taxes	K	91,223	5,132		(5,132)	
Inventories	F,H	640,671	36,043		294	36,337
Income tax receivables	CP(2)			578		578
Other current financial assets	CP(3)			186		186
Other current assets	A, CP(1)-(3),CP(12)	238,314	13,407	(1,918)	(2,739)	8,750
U.S. GAAP Current assets of discontinued operations	C,G	151,602	8,529		(8,529)	
Total current assets		1,532,284	86,203	(222)	(16,200)	69,781
Assets of disposal group classified as held for sale	C,G				8,696	8,696
Non-current assets						
Property, plant and equipment	C, F,I	3,944,427	221,266		3,033	224,299
Mineral licenses	F	719,951	40,503		(381)	40,122
Non-current financial assets	CP(14)	4,060	216	273		489
Investments in associates	CP(14)	6,142	346	(72)		274
Deferred tax assets	K	72,966	4,105		(2,667)	1,438

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Goodwill		403,207	22,684		13	22,697
Other non-current assets	A, CP(14)	30,453	1,713	(201)	(50)	1,462
Total non-current assets		5,181,206	290,833		(52)	290,781
Total assets		6,713,490	377,036	(222)	(7,556)	369,258
Equity and liabilities						
Current liabilities						
Interest-bearing loans and borrowings	CP(4),A	6,678,549	375,725	14,615	(3,822)	386,518
Trade and other payables	N, CP(7), CP(8), CP(9), CP(15)	537,004	30,211	30,476	806	61,493
Advances received	CP(12)	81,599	4,591	(292)	(13)	4,286
Due to related parties	N	15,494	872		(828)	44
Provisions	C, CP(6), CP(10)	3,478	196	1,928	6	2,130
Pension obligations	D	18,656	1,050		22	1,072
Finance lease liabilities		270,980	15,245		(32)	15,213

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

	Notes	U.S. GAAP Thousands of U.S. dollars	U.S. GAAP Millions of Russian rubles ²	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Income tax payable	CP(11)	31,444	1,769	1,272	(8)	3,033
Tax payable other than income tax	CP(6), CP(11),CP(12)	215,251	12,110	(2,489)	26	9,647
U.S. GAAP Dividends payable	CP(8)	1,843	104	(104)		
U.S. GAAP Deferred income taxes	K	7,893	444		(444)	
U.S. GAAP Accrued expenses and other current liabilities	CP(4), CP(7), CP(9), CP(10)	811,345	45,645	(45,628)	(17)	
U.S. GAAP Current liabilities of discontinued operations	C,G	150,033	8,441		(8,441)	
Other current liabilities					36	36
Total current liabilities		8,823,569	496,403	(222)	(12,709)	483,472
Liabilities of disposal group classified as held for sale	C,G				8,607	8,607
Non-current liabilities						
Interest-bearing loans and borrowings	A	166,532	9,369		(23)	9,346
Provisions	C	43,712	2,459		539	2,998
Pension obligations	D	60,222	3,388		57	3,445
Finance lease liabilities		2,813	158		(12)	146
Deferred tax liabilities	K	179,987	10,126		(7,073)	3,053
Other non-current liabilities	CP(11)	81,288	4,557	(3,447)	47	1,157
Due to related parties	G	38	2		(2)	
Income tax payable	CP(11)			3,447		3,447
Total non-current liabilities		534,592	30,059		(6,467)	23,592
Total liabilities		9,358,161	526,462	(222)	(10,569)	515,671

Equity					
Common shares		133,507	4,163		4,163
Preferred shares		25,314	833		833
Additional paid-in capital		834,136	25,591	1	25,592
Accumulated other comprehensive income (loss)	B,D,E	972,381	17,162	(16,144)	1,018
Accumulated deficit	B,D,E,L	(4,763,413)	(205,805)	19,533	(186,272)
Equity attributable to equity shareholders of Mechel PAO		(2,798,075)	(158,056)	3,390	(154,666)
Non-controlling interests	L	153,404	8,630	(377)	8,253
Total equity		(2,644,671)	(149,426)	3,013	(146,413)
Total equity and liabilities		6,713,490	377,036	(222)	(7,556)
				369,258	

- ² At exchange rate of 56.2584 RUB as of December 31, 2014. The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles

Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

Reconciliation of consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2014:

	Notes	U.S. GAAP Thousands of U.S. dollars	U.S. GAAP Millions of Russian rubles ³	Adjustments and Changes in the classification / presentation remeasurements	IFRS
Continuing operations					
Revenue	G	6,405,767	243,893	99	243,992
Cost of goods sold	G,F,H	(4,031,657)	(152,546)	(511)	(153,057)
Gross profit		2,374,110	91,347	(412)	90,935
Selling and distribution expenses		(1,460,641)	(55,599)	(62)	(55,661)
Loss on write-off of property, plant and equipment		(17,395)	(661)		(661)
Impairment of goodwill and other non-current assets	E,F	(120,237)	(6,764)	(1,232)	(7,996)
Allowance for doubtful accounts	G,N	(37,968)	(1,459)	(2,212)	(3,671)
Taxes other than income taxes		(172,447)	(6,442)	(27)	(6,469)
Allowance for amounts due from related parties	N	(41,425)	(1,823)	1,697	(126)
Administrative and other operating expenses	C,F,D,CP(13)	(392,606)	(14,946)	(851)	(518)
Other operating income	CP(13)			851	851
U.S. GAAP Accretion expenses	C	(4,963)	(191)	191	
Total selling, distribution and operating expenses, net		(2,247,682)	(87,885)	191	(2,354)
Operating profit (loss)		126,428	3,462	191	(2,766)
					887

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Finance income		2,398	88		19	107
Finance costs	C,I,J	(793,228)	(30,532)	(191)	2,613	(28,110)
Foreign exchange gain (loss), net	A,I	(2,396,123)	(105,129)		1,953	(103,176)
Share of profit of associates		276	10		(3)	7
Other income	CP(16)			684		684
Other expenses	CP(16)	(9,613)	(796)	(684)	(6)	(1,486)
Total other income and (expense), net		(3,196,290)	(136,359)	(191)	4,576	(131,974)

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

	Notes	U.S. GAAP Thousands of U.S. dollars	U.S. GAAP Millions of Russian rubles ³	Adjustments and Changes in the presentation remeasurements / reclassifications /	IFRS
Loss before tax from continuing operations		(3,069,862)	(132,897)	1,810	(131,087)
Income tax benefit	K	183,908	9,187	(365)	8,822
Loss for the year from continuing operations		(2,885,954)	(123,710)	1,445	(122,265)
Discontinued operations					
Loss after tax for the year from discontinued operations, net	G,E	(1,473,780)	(82,231)	70,529	(11,702)
Loss for the year		(4,359,734)	(205,941)	71,974	(133,967)
Attributable to:					
Equity holders of the parent		(4,335,426)	(205,007)	72,303	(132,704)
Non-controlling interests	L	(24,308)	(934)	(329)	(1,263)
U.S. GAAP Less: Dividends on preferred shares		(124)	(7)		(7)
U.S. GAAP Net (loss) income attributable to common shares of Mechel PAO		(4,335,550)	(205,014)	72,303	(132,711)

³ The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using those exchange rates which were previously applied in U.S. GAAP to translate operations from functional currency to U.S. dollar.

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Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

	Notes	U.S. GAAP Thousands of U.S. dollars	U.S. GAAP Millions of Russian rubles ⁴	Adjustments and Changes in the presentation reclassifications / remeasurements	IFRS
Other comprehensive income		925,222	30,306	(29,136)	1,170
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of income tax:</i>					
Exchange differences on translation of foreign operations	E	925,222	30,306	(29,136)	1,170
Exchange differences on translation of disposal of subsidiaries		923,929	30,304	(29,136)	1,168
Net gain on available for sale financial assets		1,293	2		2
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		(21,889)	(302)	175	(127)
Re-measurement losses on defined benefit plans	D	(21,889)	(302)	175	(127)
Other comprehensive income for the year, net of tax		903,333	30,004	(28,961)	1,043
Total comprehensive loss for the year, net of tax		(3,456,401)	(175,937)	43,013	(132,924)
Attributable to:					
Equity holders of the parent		(3,432,093)	(175,003)	43,328	(131,675)
Non-controlling interests		(24,308)	(934)	(315)	(1,249)

⁴ The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using those

exchange rates which were previously applied in U.S. GAAP to translate operations from functional currency to U.S. dollar.

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

Reconciliation of Consolidated Statement of Cash Flows for the year ended December 31, 2014:

	Notes	U.S. GAAP Thousands of U.S. dollars ⁵	U.S. GAAP Millions of Russian rubles	Adjustments and reclassifications / remeasurements	IFRS
Cash Flows from Operating Activities					
Net loss ⁶		(4,359,734)	(205,941)	71,974	(133,967)
Profit (loss) from discontinuing operations, net of income tax		1,473,780	82,231	(70,529)	11,702
Net loss from continuing operations		(2,885,954)	(123,710)	1,445	(122,265)
<u>Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:</u>					
Finance income	M1			(107)	(107)
Finance costs	M2			28,110	28,110
Other adjustments		2,739,002	118,978	(1,445)	117,533
<u>Changes in working capital items:</u>					
Interest received	M3			22	22
Interest paid	M4			(14,963)	(14,963)
Income taxes paid	M5			(2,509)	(2,509)
Other operating cash flows		891,579	32,804	(10,553)	22,251
Net cash provided by operating activities		744,627	28,072		28,072
Cash Flows from Investing Activities					
Purchases of property, plant and equipment	M6	(443,668)	(16,506)	5,141	(11,365)
Interest paid, capitalized	M6			(5,141)	(5,141)
Other investing cash flows		(28,628)	(1,233)		(1,233)
Net cash used in investing activities		(472,296)	(17,739)		(17,739)
Cash Flows from Financing Activities					
Proceeds from borrowings		1,815,966	64,469		64,469
Repayment of borrowings	M7	(2,185,343)	(78,030)	269	(77,761)
Other financing cash flows		(69,112)	(2,728)		(2,728)
Net cash used in financing activities		(438,489)	(16,289)	269	(16,020)
Effect of exchange rate changes on cash and cash equivalents		(35,965)	1,051	(150)	901
		(202,123)	(4,905)	119	(4,786)

Net decrease in cash and cash
equivalents

Cash and cash equivalents at beginning of period	M7	274,539	8,979	(2,849)	6,130
Cash and cash equivalents at end of period	M7	72,416	4,074	(2,730)	1,344

- ⁵ The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using the exchange rates which were previously applied in U.S. GAAP to translate operations from functional currency to U.S. dollar.
- ⁶ See Notes to reconciliation of statements of profit (loss) and other comprehensive income (loss) above.

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Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

		December 31, 2015		December 31, 2014		January 1, 2014	
	Level	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial liabilities</i>							
Interest-bearing loans and borrowings							
Floating rate loans	3	255,931	220,225	154,518	132,525	127,136	112,378
Bonds	1	16,684	13,398	15,284	7,168	24,883	19,876
Fixed rate loans	3	223,367	190,108	226,062	194,058	140,310	99,702
Total		495,982	423,731	395,864	333,751	292,329	231,956

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Long-term loans and borrowings, other non-current liabilities: the fair values of other non-current liabilities are based on the present value of the anticipated cash flows and approximate carrying value.

Derivatives: the fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Option-based derivatives are valued using Black-Scholes models and Monte-Carlo simulations. The derivative financial instruments are recorded at their fair value at each reporting date.

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The movement of financial instruments measured at the fair value using unobservable inputs (Level 2 and 3) is presented below:

	Contingent consideration Drilling Program Level 3	Swap transactions Level 2	Option Level 2
January 1, 2014	907	408	415
Remeasurement recognised in OCI	689		
Loss on contingent consideration remeasurement	85		
Disposal/Termination		(408)	(415)
December 31, 2014	1,681		
Disposal/Termination	(1,681)		

December 31, 2015

The contingent consideration resulted from the acquisition of the BCG Companies and measured at fair value is represented by the Drilling Program contingent consideration, which was calculated using estimated tonnage of coal in-place determined by the independent appraiser. The present value of this liability was determined using an 8% discount rate, stated in the agreement for actual settlement of contingent obligation, which represents the estimate of the amount that would have been paid if the Group had settled the liability at the balance sheet date. The contingent consideration was released on the date of transfer of the BCG Companies shares on February 12, 2015. As of December 31, 2014, the contingent consideration of RUB 1,681 million is included in Current liabilities of discontinued operations (Note 17).

Swap with VTB

On July 12, 2011, the Group entered into a non-deliverable cross currency RUB 5,000 million swap agreement with VTB Bank (Austria), which involved the exchange of two principal amounts in two different currencies at the prevailing currency rate at contract inception. During the life of the swap, the counterparties exchange fixed rate interest payments in the swapped currencies. At maturity, the principal amounts are again swapped at a pre-determined rate of exchange. The business objective of this instrument was to decrease the effective interest rate for a RUB 5,000 million bond via a positive net cash inflow from interest payments under the swap instrument according to the Group's expectations about U.S. dollar and Russian ruble exchange rate fluctuations. The underlying instrument for the swap transaction is a RUB 5,000 million bond bearing interest at 10% p.a. and maturing on August

25, 2020 (put option date September 1, 2015) issued by Mechel OAO on September 7, 2010. Under the terms of the agreement, VTB Bank pays interest of 10% p.a. at RUB 5,000 million notional amount, the Group pays interest of 5.69% p.a. on \$176,000 thousand notional amount (RUB 5,772 million at exchange rate 32.7292 as of January 1, 2014). Interest is paid on a semi-annual basis with the first payment on March 2, 2012. On the termination date, August 28, 2015, VTB Bank pays to the Group the notional amount of RUB 5,000 million, and the Group pays to VTB Bank the notional amount of \$176,000 thousand (RUB 5,772 million at exchange rate 32.7292 as of January 1, 2014). For the year ended December 31, 2014, a loss of RUB 4,654 million related to the change in the fair value and termination of this swap instrument was included in the net foreign exchange gain (loss) in the statements of profit (loss) and other comprehensive income (loss). On December 29, 2014, the swap agreement with VTB Bank (Austria) was terminated, and the liability was transferred to VTB Bank (PAO) in the amount of \$101,912 thousand. As of December 31, 2014, the amount of RUB 5,733 million (\$101,912 thousand at exchange rate as of December 31, 2014) due to VTB Bank

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(All amounts are in millions of Russian rubles, unless stated otherwise)

was recorded within Trade and other payables in the consolidated statement of financial position. In September 2015, the Group signed agreements with VTB Bank contemplating, among other things, extension of the loan tenures, decrease in the interest rates, revision of the collateral requirements and dismissal of all court proceedings, all of which becomes effective upon fulfilment of all conditions precedent and conditions subsequent. All conditions were fulfilled and the restructuring became effective in October 2015. As part of restructuring the outstanding liability of \$107,703 thousand that remained from the swap agreement termination and related interest was converted to Russian rubles at spot rate of 64.65 rubles per U.S. dollar and repaid from the proceeds under the loan agreement signed between CMP and VTB Bank (PAO).

The Group accounts for the above mentioned swap instrument at fair value as a derivative instrument not designated or qualifying as a hedging instrument under IAS 39 Financial instruments: Recognition and Measurement. As of January 1, 2014, the fair value of this swap instrument was recorded in Other long-term liabilities in the amount of RUB 408 million. The fair value of the Group's swap contract was valued based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes had been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

Cross-currency options with Sberbank

In October 2012 and March 2013, SKCC entered into cross currency options with Sberbank. The options are contracted in respect of four facilities totaling to RUB 20,900 million for the purpose of working capital financing, falling due on October 6, 2017. The cross currency option creates an embedded derivative, which should be measured at fair value, bifurcated at inception from the host agreement and recorded as a liability. The fair value of the option is estimated using modified Black-Scholes model for barrier options. The liability under the host contract is recorded at amortized value, and the interest is accrued using the effective interest rate. The ruble-denominated facilities bear floating interest at 10.5%-11.5% p.a. When the underlying achieves the barrier value which was fixed at a level of 50.00 Russian rubles per 1 U.S. dollar, the liability under the host contract converts into cross-currency at a pre-determined strike exchange rate (RUB 6,500 million at the exchange rate of 31.04 Russian rubles per 1 U.S. dollar, RUB 5,000 million at the exchange rate of 30.80 Russian rubles per 1 U.S. dollar, RUB 1,500 million at the exchange rate of 31.00 Russian rubles per 1 U.S. dollar, RUB 7,900 million at the exchange rate of 30.64 rubles per 1 U.S. dollar) and a modified interest rate (minus 50bps to the original interest rate). Simultaneously, the interest rate is modified into floating 10.0%-11.0% p.a. After the triggering event, all future payments are made in U.S. dollars. The business objective of this instrument was the decrease in interest rate on the ruble-denominated facilities based on the Group's expectations about U.S. dollar and ruble exchange rate fluctuations.

As of January 1, 2014, the fair value of this option was recorded in Other long-term liabilities in the amount of RUB 415 million. The fair value of the Group's option contract was measured based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes have been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

On December 1, 2014, the exchange rate reached the point of 50.00 Russian rubles per 1 U.S. dollar and the facilities were converted into U.S. dollar equivalent of \$677,981 thousand (RUB 33,439 million) due to the termination of cross currency options with Sberbank. For the year ended December 31, 2014, a RUB 14,303 million loss related to conversion was included in the net foreign exchange gain (loss) in the statements of profit (loss) and other comprehensive income (loss). The Group accounted for the above mentioned option at fair value as a derivative instrument not designated or qualifying as a hedging instrument under IAS 39 Financial Instruments: Recognition and Measurement.

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)***11. Financial assets and financial liabilities****11.1. Financial liabilities: Interest-bearing loans and borrowings**

The Group has the following principal and interest amounts outstanding for interest-bearing loans and bonds:

	Interest rate %	December 31, 2015	Interest rate %	December 31, 2014	Interest rate %	January 1, 2014
Short-term borrowings and current portion of long-term debt:						
<i>In Russian rubles</i>						
Banks and financial institutions	9.4-16.0	8,239	8.0-27.0	10,557	9.0-15.3	6,606
Bonds issue			13.5	2,705		
Corporate lenders	6.7	65	6.4	64	8.3-10.0	78
Weighted average interest rate		12.9%		15.0%		9.4%
<i>In U.S. dollars</i>						
Banks and financial institutions	8.0	310			2.3-8.0	5,269
Weighted average interest rate		8.0%				7.1%
<i>In Euro</i>						
Banks and financial institutions	8.3	3,591				
Corporate lenders	2.8	182	2.8	178	2.8	158
Weighted average interest rate		8.3%		2.8%		2.8%
<i>In other currency</i>						
Banks and financial institutions					9.0-9.5	411
Corporate lenders			2.5	27		
Current portion of long-term debt		431,812		358,372		252,504
Interest payable		27,269		13,093		2,052
Fines and penalties on overdue amounts		20,206		1,522		
Total short-term borrowings and current portion of long-term Debt		491,674		386,518		267,078

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	Interest rate %	December 31, 2015	Interest rate %	December 31, 2014	Interest rate %	January 1, 2014
Long-term debt:						
<i>In Russian rubles</i>						
Banks and financial institutions	10.1-17.0	134,786	10.1-35.6	124,452	7.5.-14.6	124,985
Bonds issue	2.0-15.0	16,551	8.4-13.0	17,376	8.3-13.0	42,639
Corporate lenders	6.7	5	6.4	4	3.9	8
Weighted average interest rate		12.9%		21.1%		10.9%
<i>In U.S. dollars</i>						
Banks and financial institutions	1.8-8.0	260,212	1.6-10	202,721	1.7-10.9	91,272
Corporate lenders					5.1-9.0	448
Weighted average interest rate		8.0%		8.7%		6.6%
<i>In Euro</i>						
Banks and financial institutions	0.8-5.7	24,566	0.8-5.7	23,163	1.1-6.8	18,387
Weighted average interest rate		4.5%		4.7%		3.1%
<i>In other currency</i>						
Banks and financial institutions				2	8.5	16
Current part of long-term loans and borrowings		(431,812)		(358,372)		(252,504)
Total long-term debt		4,308		9,346		25,251

Aggregate scheduled maturities of the debt outstanding as of December 31, 2015, are as follows:

Payable by:	
2016 (current portion)	491,674
2017	889
2018	1,101

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2019	1,536
2020	782
Thereafter	
Total	495,982

The unused portion under all credit facilities as of December 31, 2015, 2014 and January 1, 2014 was RUB 409 million, RUB 1,879 million and RUB 9,191 million, respectively.

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The outstanding balances of principal amount of short-term and long-term debt by denominated currencies and major banks as of December 31, 2015, 2014 and January 1, 2014 were as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Short-term and long-term debt			
<u>Russian ruble-denominated:</u>			
VTB	70,415	62,428	56,600
Gazprombank	33,639	33,726	32,477
Sberbank	32,141	32,503	39,476
Bonds	16,551	20,081	42,639
Uralsib	3,331	3,379	
Eurasian Development Bank	1,767	2,101	2,334
Raiffeisen Bank	897		
Other	905	940	790
Total	159,646	155,158	174,316
<u>U.S. dollar-denominated:</u>			
Gazprombank	101,156	78,017	42,810
Pre-export facility	72,881	55,549	31,545
Sberbank	56,609	43,567	3,232
VEB	12,192	9,411	1,059
BNP	10,955	8,290	5,181
MCB	6,311	5,907	3,432
Alfa-bank			4,909
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)			1,647
Raiffeisen Bank		1,665	1,412
ING Bank			630
Uralsib			324
Other	418	315	808
Total	260,522	202,721	96,989
<u>Euro-denominated:</u>			
BNP	11,505	9,547	6,563

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VTB	4,098	1,910	1,473
BNL	3,364	2,811	1,989
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	3,345	2,838	2,018
ING Bank	2,461	2,100	1,463
Raiffeisen Bank	475	406	332
Uralsib			1,574
Gazprombank		1,062	1,216
Other	3,091	2,667	1,917
Total	28,339	23,341	18,545
<u>Denominated in other currencies:</u>			
Sberbank			341
Other		29	86
Total		29	427
Total short-term and long-term debt	448,507	381,249	290,277

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

(a) Pre-export facility agreement

As of December 31, 2015, pre-export facility agreement bears interest at LIBOR plus 5.5% p.a. 7.5% p.a. The increased interest rate is applied to the overdue amounts. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014 were RUB 72,881 million (\$999,970 thousand), RUB 55,549 million (\$987,383 thousand) and RUB 31,545 million (\$963,806 thousand), respectively.

As of December 31, 2015, the Group's overdue principal amount and overdue interest on pre-export facility agreement amounted to RUB 38,049 million and RUB 3,857 million, respectively. The Group is currently negotiating the refinancing of this overdue amount with the syndicate of banks.

The fines and penalties on overdue amounts of RUB 28 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 165 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

(b) VTB facilities

In September 2015, the new restructuring agreements between the Group and VTB were signed. On October 13, 2015, the restructuring became effective. The restructuring provided for an extension of the repayment grace period until April 2017 and the final maturity until April 2020 for the credit facilities of Mechel PAO, SKCC and Yakutugol in the total amount of RUB 62,098 million. In addition, in October 2015, VTB provided CMP with a new ruble-denominated long-term loan in the amount of RUB 8,000 million. Interest rate under the restructured agreements is set at the level of the Key Rate of the Central Bank of Russia plus 2.35% through January 6, 2018 and 2.99% afterwards.

The outstanding balances of the ruble-denominated facilities as of December 31, 2015, 2014 and January 1, 2014 were RUB 70,415 million, RUB 62,428 million and RUB 56,600 million, respectively, bearing interest at 9.42-13.4% p.a.

During 2010-2015, VTB provided euro-denominated long-term and short-term loans to the Group, bearing interest at 5.3%-8.3% p.a. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014, were RUB 4,098 million, RUB 1,910 million and RUB 1,473 million, respectively.

As of December 31, 2015, the Group's overdue principal amount on VTB credit facilities amounted to RUB 45 million. The fines and penalties on overdue amounts of RUB 10,689⁷ million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 9,704 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

(c) Gazprombank facilities

During 2011-2014, Gazprombank provided ruble-denominated long-term and short-term loans to the Group bearing interest at 9.8%-14% p.a. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014 were RUB 33,639 million, RUB 33,726 million and RUB 32,477 million, respectively.

⁷ According to the restructuring terms, after the Group pays RUB 895 million by equal quarterly instalments within 36 months after October 13, 2015, penalties in the amount of RUB 9,761 million are to be cancelled.

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(All amounts are in millions of Russian rubles, unless stated otherwise)

During 2009-2014, Gazprombank provided dollar-denominated long-term loans to the Group bearing interest at 5.9%-7.5% p.a. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014 were RUB 101,156 million (\$1,387,930 thousand), RUB 78,017 million (\$1,386,752 thousand) and RUB 42,810 million (\$1,308,025 thousand), respectively.

As of December 31, 2015, the Group's overdue principal amount and overdue interest on Gazprombank credit facilities amounted to RUB 36,308 million and RUB 11,362 million, respectively. As of December 31, 2015, the Group was in process of restructuring of the overdue facilities. In the period from August through December 2015, the Group's subsidiaries (SKCC, Yakutugol, CMP, Mechel Service, Mechel-Energo, BMP, Port Posiet, Mechel Coke and USP) signed amendments to their credit facility agreements with Gazprombank for a total amount of RUB 129,666 million (including loans denominated in U.S. dollars at exchange rate as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022. The extension of the grace is subject to certain conditions, if they are not met the grace period will be moved to April 2017 and the final maturity to April 2020. Interest rate under restructured agreements is set at the level of the Central Bank of Russia rate plus 1.5% (subject to increase to 3.5% if certain conditions are not met). The restructuring under SKCC and Yakutugol facilities with the total balance of RUB 101,156 million became effective in January and March 2016.

The fines and penalties on overdue amounts of RUB 6,026 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 5,179 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

(d) Sberbank facilities

As of December 31, 2015, the Group's overdue principal amount and overdue interest on Sberbank credit facilities amounted to RUB 65,778 million and RUB 5,770 million, respectively.

The fines and penalties on overdue amounts of RUB 2,681 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 2,699 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015. Refer to Note 30 for details on the restructuring of the Sberbank facilities subsequent to December 31, 2015.

(e) VEB facility

The Elgaugol's outstanding balances under VEB credit facility as of December 31, 2015, 2014 and January 1, 2014 were RUB 12,192 million (\$167,288 thousand), RUB 9,411 million (\$167,288 thousand) and RUB 1,059 million (\$32,342 thousand), respectively. As of December 31, 2015, the Group's overdue principal amount and overdue

interest payable on VEB credit facilities amounted to RUB 10,673 million (\$146,438 thousand) and RUB 246 million (\$3,369 thousand), respectively. The use of proceeds under the facility is limited to the development of the Elga coal project.

The fines and penalties on overdue amounts of RUB 18 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 9 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

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(All amounts are in millions of Russian rubles, unless stated otherwise)

(f) Bonds

On July 30, 2009, Mechel PAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 5,000 million. The interest rate for the current coupon period amounted to 2.0% p.a. The maturity date is July 21, 2016. The balance outstanding as of December 31, 2015 was RUB 1,761 million and is classified as current debt.

On September 7, 2010, Mechel PAO issued two 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 15.0% p.a. The maturity date is August 25, 2020. The balance outstanding as of December 31, 2015 was RUB 4,684 million. In October 2015 bonds were restructured and according to the restructuring terms RUB 445 million were classified as short-term debt and RUB 4,239 million were classified as long-term debt. According to the new payment schedule the amount of RUB 445 million should be paid in 2016, RUB 868 million in 2017, RUB 1085 million in 2018, RUB 1,520 million in 2019 and the final payment in the amount of RUB 766 million should be made in 2020.

On February 22, 2011, Mechel PAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 8.0% p.a. The maturity date is February 9, 2021. The bondholders have an option to demand repayment of the bonds at par value starting August 18, 2016. The balance outstanding as of December 31, 2015 was RUB 826 million and is classified as current debt.

On June 9, 2011, Mechel PAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 8.4% p.a. The bondholders have an option to demand repayment of the bonds at par value starting June 6, 2016. The maturity date is May 27, 2021. The balance outstanding as of December 31, 2015 in the amount of RUB 5,981 million is classified as current debt.

On June 14, 2011, Mechel PAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 5,000 million. The interest rate for the current coupon period amounted to 8.4% p.a. The bondholders have an option to demand repayment of the bonds at par value starting June 9, 2016. The maturity date is June 1, 2021. The balance outstanding as of December 31, 2015 in the amount of RUB 3,299 is classified as current debt.

(g) Other loans

Other loans represent ruble, U.S. dollar and euro-denominated long-term and short-term loans bearing interest at 0.8%-17% p.a. The outstanding balance under other loan agreements amounted to RUB 48,825 million as of December 31, 2015.

As of December 31, 2015, the Group's overdue principal amount and overdue interest on other loans amounted to RUB 10,436 million and RUB 735 million, respectively. The fines and penalties on overdue amounts of RUB 764

million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 769 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

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In 2012-2015, the Group negotiated revolving credit agreements providing for unrestricted borrowings up to RUB 26,581 million with several banks. These revolving credit lines allow the Group to withdraw, repay and re-draw in the agreed amounts, timing and number of times until the arrangement expires. Borrowings bear interest at 8.3-14.5% p.a., and are continuously renewable at the Group's option for 1-2 years provided there is compliance with the terms of the agreement.

(h) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 100%-1 share of Yakutugol, 75%+4 shares of SKCC, 66.66% of CMP, 50%+2 shares of common shares of BMP, 80%+3 shares of KMP, 62.5% of Mechel Mining, 80%-5 shares of USP, 33.33%+1 share of common shares of Izhstal, 25%+1 share of Port Posiet, 49% of Elgaugol, 25% of registered capital of Mecheltrans and 100% of registered capital of Fincom-invest OOO as of December 31, 2015. In addition, the pledge of 25% of BFP and 25% of Mechel Temryuk became effective in 2016.

As of December 31, 2015, 2014 and January 1, 2014, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 33,510 million, RUB 29,899 million and RUB 31,764 million, respectively (Note 18). Carrying value of inventories pledged under the loan agreements amounted to RUB 4,037 million, RUB 3,530 million and RUB 890 million as of December 31, 2015, 2014 and January 1, 2014, respectively. Accounts receivable pledged as of December 31, 2015, 2014 and January 1, 2014 amounted to RUB 273 million, RUB 383 million and RUB 393 million, respectively. Third party bonds of RUB 114 million as of December 31, 2014, were pledged under the loan agreements.

(i) Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, minimum value of shareholders' equity and certain crossdefault provisions. The covenants also include, among other restrictions, limitations on: (1) indebtedness of certain companies in the Group; (2) amount of dividends in common and preferred shares; and (3) amounts that can be spent for capital expenditures, new investments and acquisitions. Covenant breaches if not waived generally permit lenders to demand accelerated repayment of principal and interest.

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2015:

Restrictive covenant**Requirement**

		Actual as of December 31, 2015
Mechel's Adjusted Shareholders' Equity, as defined in respective loan agreements	Greater than or equal to \$3 billion (RUB 218,648 million at the December 31, 2015 exchange rate)	Negative RUB 42,384 million
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.15:1.0	0.8:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 0.9:1.0	0.8:1.0
Mechel's Net Borrowings	Not exceed \$10 billion (RUB 728,827 million at the December 31, 2015 exchange rate)	RUB 492,903 million
Mechel's Net Debt to EBITDA	Not exceed 9.75:1.0	11.2:1.0
Mechel's Total Debt to EBITDA	Not exceed 9.5:1.0	11.2:1.0

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015**

(All amounts are in millions of Russian rubles, unless stated otherwise)

As of December 31, 2015, the Group was not in compliance with all major Group's restrictive financial covenants, except for the targeted amount of Net borrowings (Total debt). There was a default on payments of principal and interest in the amount of RUB 161,289 million and RUB 21,969 million, respectively. As a result, the long-term debt of RUB 175,743 million was reclassified to short-term liabilities as of December 31, 2015.

11.2. Financial instruments risk management objectives and policies

The Group is exposed to foreign currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks, which are summarised below.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets to meet its liabilities as and when they fall due.

As of December 31, 2015, the Group was in breach of a number of financial covenants contained in the Group's loan agreements, which led to cross-defaults under other loan and finance lease agreements, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans.

The following tables show the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates, or if floating, based on rates current at the reporting date) and the earliest the Group can be required to pay.

	Maturity						Total
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years	
At December 31, 2015							
Loans and borrowings, including interest payable	472,159	23,385	1,542	1,754	2,187	986	502,013
Finance lease liabilities	10,534	6,469	360	169	20	1	17,553
Trade and other payables	1,038	50,200	15				51,253

				Maturity				
			More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years	Total	
At December 31, 2014								
Loans and borrowings, including interest payable	378,120	40,522	10,701	666	666	781	431,456	
Finance lease liabilities	14,544	5,774	107	37	14		20,476	
Trade and other payables	1,050	56,941	1,009				59,000	
Contingent consideration		1,681					1,681	

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

	Maturity						Total
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years	
At January 1, 2014							
Loans and borrowings, including interest payable	251,431	38,683	38,507	16,429	685	1,433	347,168
Finance lease liabilities	9,843	4,637	2,217	864	253	56	17,870
Trade and other payables		49,407	1,319	543			51,269
Contingent consideration		907					907
Derivative financial instruments		823					823

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each subsidiary subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

The contractual credit period for sales of goods is varied from 30 to 60 days on average. No interest is charged on trade receivables.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

The maximum exposure to credit risk arising from the Group's financial assets is presented as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Restricted cash (excluding cash on hand)	62	72	
Trade and other receivables	16,033	20,076	22,753
Other financial assets:	303	448	543
Promissory notes	218	204	2
Loans issued	72	102	410
Bonds	13	142	21
Deposits			110
Total	16,398	20,596	23,296

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015**

(All amounts are in millions of Russian rubles, unless stated otherwise)

Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency different from the Group's functional currency.

The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. Approximately 19% of the Group's sales are denominated in U.S. dollars and 15% of the Group's sales are denominated in Euro, 59% of the Group's borrowings are denominated in U.S. dollars and 6% of the Group's borrowings are denominated in Euro. The Group does not have formal arrangements to mitigate foreign currency risk. However, management of the Group believes that the foreign currency risk is partly mitigated for the Group by the situation where approximately 34% of total sales of the Group are denominated in U.S. dollars and Euro that reduces negative impact of changes in exchange rates for the Group's borrowings and purchases denominated in foreign currencies, mostly in U.S. dollars. The Group does not currently use derivative instruments to manage exchange rate exposures.

The Group's exposure at the reporting date to foreign currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate to is set out in the table below:

	December 31, 2015	December 31, 2014	January 1, 2014
<i>Assets and liabilities</i>			
<i>denominated in U.S. dollars:</i>			
Non-current assets		135	45
Long-term financial assets		135	45
Current assets	2,549	7,175	11,993
Receivables	1,399	5,235	4,831
Short-term financial assets		138	13
Cash and cash equivalents	1,150	1,802	7,149
Long-term liabilities			(6,008)
Long-term loans and borrowings			(5,269)
Long-term payables			(536)
Long-term finance lease liability			(203)
Short-term liabilities	(301,442)	(236,214)	(108,372)
Short-term loans and borrowings	(279,905)	(207,419)	(92,440)

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Short-term payables	(19,405)	(27,238)	(15,717)
Short-term finance lease liability	(2,132)	(1,557)	(215)

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	December 31, 2015	December 31, 2014	January 1, 2014
<i>Assets and liabilities denominated in Euro:</i>			
Non-current assets		11	21
Long-term financial assets		11	21
Current assets	3,096	2,263	2,323
Receivables	1,939	1,381	1,629
Short-term financial assets		21	110
Cash and cash equivalents	1,157	860	584
Long-term liabilities	(97)	(207)	(210)
Long-term loans and borrowings	(64)	(178)	(158)
Long-term finance lease liability	(33)	(29)	(52)
Short-term liabilities	(30,705)	(25,632)	(19,906)
Short-term loans and borrowings	(28,544)	(23,423)	(18,497)
Short-term payables	(1,936)	(1,978)	(1,357)
Short-term finance lease liability	(225)	(231)	(52)
	December 31, 2015	December 31, 2014	January 1, 2014
<i>Currency exchange rates</i>			
U.S. dollar	72.8827	56.2584	32.7292
Euro	79.6972	68.3427	44.9699

Sensitivity analysis

The table below demonstrates the Group's sensitivity to a devaluation of the Russian ruble against U.S. dollar and Euro which management believes is an appropriate measure in the current market conditions and which would impact its operations:

	Change in U.S. dollar to Russian ruble exchange rate	Effect on profit before tax	Change in Euro to Russian ruble exchange rate	Effect on profit before tax
2014				

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	+30%	68,671	+30%	7,070
	-30%	(68,671)	-30%	(7,070)
2015				
	+40%	119,557	+40%	11,082
	-15%	(44,834)	-15%	(4,156)

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. As of December 31, 2015, 2014 and January 1, 2014, the shares of the borrowings with floating rates in the total amount of the borrowings were 53% (incl. Mosprime 0.2%, key rate of the Central Bank of Russia 14%, Libor, Euribor and others 39%), 39% (incl. Mospime 12%, Libor, Euribor and others 27%) and 43% (incl. Mosprime 18%, Libor, Euribor and others 25%), respectively.

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(All amounts are in millions of Russian rubles, unless stated otherwise)

The table below demonstrates the Group's sensitivity to change of floating rates.

	Increase/decrease in MosPrime (%)	Effect on profit before tax	Increase/decrease in LIBOR (%)	Effect on profit before tax	Increase/decrease in Euribor (%)	Effect on profit before tax
2014						
	+9.32%	4,395	+0.02%	12	+0.07%	13
	-9.32%	(4,395)	-0.02%	(12)	-0.07%	(13)
2015						
	+6%	3,312	+0.5%	662	+0.25%	62
	-5%	(2,760)	-0.12%	(159)	-0.25%	(62)

11.3. Other current financial assets

In November 2011, the owners of the former Estar metallurgical plants and the Group entered into a loan agreement pursuant to which a loan of \$944,530 thousand (RUB 28,433 million at exchange rate as of November 10, 2014) was granted by the Group. The loan consists of several tranches which bear interest at the range of 1-8.5% p.a. To secure the loan, shares in the major former Estar metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the former Estar metallurgical plants to repay most of the accounts receivable owed to the Group. According to the loan agreement, in the event that the loan is not repaid at maturity (September 30, 2012), the Group was entitled to enforce the pledge over the pledged former Estar metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service.

In September 2012, the Group extended the term of the loan for additional nine months from October 1, 2012, the pledges and guarantees remained the same. From September through December 2012, the loan was partially repaid in the amount of \$213,360 thousand (RUB 6,654 million at the average rate for the period from September till December 2012). To make this repayment, the owners of the former Estar metallurgical plants used the proceeds received by them from the Group for the sale of Cognor and proceeds under a security deposit, as discussed further below. During the year ended December 31, 2013, \$5,000 thousand (RUB 154 million at exchange rate as of March 19, 2013) were repaid and the owners of the former Estar metallurgical plants returned the security deposit paid by the Group in the end of 2012 for the acquisition of some assets pledged under the loan agreement.

The Group evaluates the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2015, 2014 and January 1, 2014, was RUB nil. This resulted in a \$830,421 thousand (RUB 60,620 million at exchange rate as of December 31, 2015), \$832,013 thousand (RUB 46,742 million at exchange rate as of December 31, 2014) and \$888,015 thousand (RUB 29,064 million at exchange rate as of January

1, 2014) provision for doubtful accounts under this loan as of December 31, 2015, 2014 and January 1, 2014, respectively. The Group has not taken possession of assets provided as collateral because these entities are burdened with substantial amount of debt.

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	December 31, 2015	December 31, 2014	January 1, 2014
Cash and cash equivalents from continuing operations:			
Cash on hand	8	67	63
Cash at banks, including			
in Russian rubles	628	922	723
in U.S. dollars	1,150	1,802	7,149
in Euro	1,157	860	584
in other currencies	135	312	301
Other cash and cash equivalents	1	20	159
Total cash and cash equivalents from continuing operations	3,079	3,983	8,979
Cash and cash equivalents of discontinued operations (Note 17)		91	
Total cash and cash equivalents	3,079	4,074	8,979

For the purpose of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 2,188 million, RUB 2,730 million and 2,849 million as of December 31, 2015, 2014 and January 1, 2014.

As of December 31, 2015, 2014 and January 1, 2014, short-term deposits in the amount of RUB nil, RUB 1,483 million and RUB 6,506 million with original maturities of less than 90 days were included in bank accounts in U.S. dollars, Russian rubles and other currencies, respectively. The following table presents the Group's deposits with maturity of less than 3 months:

	December 31, 2014	January 1, 2014
in Russian rubles	363	237
in U.S. dollars	1,100	6,251

in other currencies	20	18
Total short-term deposits	1,483	6,506

As of December 31, 2015, 2014 and January 1, 2014, the amount of RUB 62 million, RUB 72 million and RUB nil, respectively, was restricted for use by regulatory requirements.

As of December 31, 2015, 2014 and January 1, 2014, the Group had available RUB 409 million, RUB 1,879 million and RUB 9,191 million, respectively, of undrawn committed borrowing facilities.

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Notes to the consolidated financial statements for the year ended December 31, 2015

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13. Trade and other receivables

	December 31, 2015	December 31, 2014	January 1, 2014
Trade receivables	26,834	31,221	29,776
Domestic customers	22,332	23,842	24,126
Foreign customers	4,502	7,379	5,650
Other receivables	5,495	3,093	4,677
Total trade and other receivables	32,329	34,314	34,453
Less allowance for doubtful accounts	(16,348)	(14,505)	(11,976)
Total accounts receivable, net	15,981	19,809	22,477

As of December 31, the ageing analysis of trade receivables is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Total receivables	32,329	34,314	34,453
Past due but not impaired:			
< 30 days	2,181	1,908	1,664
30 - 60 days	618	623	377
61 - 90 days	241	332	406
91 - 180 days	248	346	698
181 - 365 days	326	557	345
> 1 year	613	293	182
Total past due, but not impaired:	4,227	4,059	3,672

Receivables that were past due but not impaired amounted to RUB 4,227 million as of December 31, 2015, RUB 4,059 million as of December 31, 2014, RUB 3,672 million as of January 1, 2014. Based on past experience, management believes that no allowance is necessary in respect of receivables that were past due but not impaired as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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As of December 31, 2015, trade and other receivables with an initial carrying value of RUB 16,348 million (December 31, 2014: RUB 14,505 million, January 1, 2014: RUB 11,976 million) were impaired and fully provided for. See below for the movements in the allowance for doubtful accounts:

At January 1, 2014	Total
	(11,976)
Charge for the year	(3,076)
Utilised /Unused amounts reversed	
Disposal of subsidiaries	153
Reclassified in assets of disposal group held for sale	9
Exchange rate difference	385
At December 31, 2014	(14,505)
Charge for the year	(1,109)
Utilised /Unused amounts reversed	261
Disposal of subsidiaries	10
Reclassified in assets of disposal group held for sale	24
Exchange rate difference	(1,029)
At December 31, 2015	(16,348)

14. Related party disclosures

Note 1 provides information about the Group's structure, including details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with the related parties in 2014 and 2015.

	2015			2014		
	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)
Associates	199	80	28	284	91	(2)
Controlling shareholders and entities under control of the Group's Controlling shareholders	261	37	(23)	94	25	133

Total	460	117	5	378	116	131
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As of December 31, the Group had the following balances in settlement with related parties:

	December 31, 2015			December 31, 2014			January 1, 2014		
	Receivable from	Payables to	outstanding, net	Receivable from	Payables to	outstanding, net	Receivable from	Payables to	outstanding, net
Associates	8	(50)	(42)	59	(44)	15	50	(61)	(11)
Controlling shareholders and entities under control of the Group's Controlling shareholders	88	(28)	60	79		79	146	(963)	(817)
Total	96	(78)	18	138	(44)	94	196	(1,024)	(828)

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(All amounts are in millions of Russian rubles, unless stated otherwise)

(a) Transactions with the associates

The Group's associates provide to the Group's subsidiaries transportation and auto repair services. During the years ended December 31, 2015 and 2014, the Group purchased from its associates transportation services in the amounts of RUB 105 million and RUB 166 million, respectively, and repair services in the amounts of RUB 94 million and RUB 86 million, respectively.

(b) Controlling shareholders and entities under control of the Group's Controlling shareholders

As of December 31, 2015, 2014 and January 1, 2014, the amounts of accounts receivable fully covered by the allowance included amounts receivable of RUB 24,035 million, RUB 24,254 million and RUB 15,386 million, respectively, described below. In December 2013, the Group, related party (an entity wholly owned by the Controlling Shareholder) and the former Estar metallurgical plants signed an assignment agreement. Under that agreement, the Group assigned to its related party the right to collect amounts due from the former Estar metallurgical plants, and the related party is to repay this amount to the Group through November 2017.

As of January 1, 2014, the Group had accounts payables to the Controlling Shareholder in the amount of RUB 964 million. In November 2013, the Group purchased 1.31% of Mechel Mining OAO from the Controlling Shareholder for consideration of RUB 1,895 million. The transaction was accounted for as an equity transaction. The Group has 99.999995% of voting shares of Mechel Mining OAO as of January 1, 2014.

The outstanding cash balance in Coalmetbank was RUB 1,580 million and RUB 2,183 million as of December 31, 2015 and December 31, 2014, respectively.

(c) Compensation to key management personnel

The total compensation to key management personnel was included in general and administrative expenses in the accompanying consolidated statements of profit (loss) and other comprehensive income (loss) and consisted of the short-term employee benefits in the amount of RUB 481 million and RUB 291 million in the year ended December 31, 2015 and 2014, respectively. There are no share-based payments to key management personnel. The Group's directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

15. Inventories

	December 31, 2015	December 31, 2014	January 1, 2014
Raw materials	11,496	10,553	13,377

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Work in progress	5,769	5,843	6,742
Finished goods and goods for resale	17,924	19,941	26,510
Total inventories at the lower of cost and net realizable value	35,189	36,337	46,629

During 2015, RUB 1,003 million (2014: RUB 1,360 million) was recognised as an expense within cost of goods sold for inventories carried at net realisable value. The amount of inventories recognised as an expense during the period was RUB 100,577 million for 2015 (2014: RUB 99,934 million).

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	December 31, 2015	December 31, 2014	January 1, 2014
<i>Other current assets:</i>			
Input VAT and other taxes recoverable	2,976	4,569	4,371
Prepayments and advances for materials	3,545	2,605	2,525
Other current assets	1,606	1,576	329
Total prepayments and other current assets	8,127	8,750	7,225

	December 31, 2015	December 31, 2014	January 1, 2014
<i>Other non-current assets:</i>			
Deferred assets from sale and lease back	339	372	359
Advance payment to non-state pension fund	462	565	562
Long-term prepayments	1	1	6
Prepaid bonds			184
Prepaid royalties			904
Other non-current assets	441	524	466
Total other non-current assets	1,243	1,462	2,481

Generally in Russia, VAT related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred on purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

As of December 31, 2015, 2014 and January 1, 2014, advanced payments of RUB 462 million, RUB 565 million and RUB 562 million were made by Yakutugol in terms of agreed pension benefit program to Mechel Fund non-state pension funds (Note 24).

Provision for advances issued of RUB 355 million and RUB 595 million was included in Allowance for doubtful accounts in the Statement of profit (loss) and other comprehensive income (loss) for the years ended December 31,

2015 and 2014.

17. Discontinued operations
BCG Companies

In December 2014, the Group entered into an agreement with a third party to sell 100% of the shares of the BCG Companies. The binding agreement was signed on February 12, 2015. The total consideration for the sale of the BCG Companies under the shares sale agreement consists of: (1) an immediate cash payment of \$5,000 thousand (RUB 330 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015); (2) future royalty payments on coal mined and sold in the amount of 3.00 U.S. dollars (RUB 198.2 at exchange rate of 66.0585 RUB/USD as of February 12, 2015) per short ton, capped at \$150,000 thousand (RUB 9,909 million at

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exchange rate of 66.0585 RUB/USD as of February 12, 2015); (3) a portion of a sale price in case of any future sale of the BCG Companies and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closed within, respectively, five or ten years of the sale to the buyer. The fair value of future royalty payments and portion of selling price in case of future resale of the BCG Companies was assessed by the Group as RUB nil at the date of sale.

The contingent consideration arising upon the acquisition of the BCG Companies of \$29,936 thousand (RUB 1,681 million at exchange rate as of December 31, 2015 and RUB 1,977 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015), which depends on the results of additional geological researches of reserves (Drilling Program), was released on the date of transfer of shares of February 12, 2015. The Group incurred expenses of \$3,415 thousand (RUB 226 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015) related to consulting services from third party banks in connection with the sale. The disposal of the BCG Companies is aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses.

The results of operations of BCG Companies are included in the consolidated financial statements as discontinued operations for the period ended December 31, 2014.

Following the classification of the BCG Companies as held for sale, the fair value less costs to sell of net assets was determined in accordance with requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. As a result, the impairment loss of RUB 11,653 million was recognised as a loss on discontinued operations for the year ended December 31, 2014 (including RUB 669 million related to Property, plant and equipment and RUB 10,934 million related to Mineral licenses and RUB 50 million related to other assets).

The results of the BCG Companies presented as discontinued operations in the statements of profit (loss) and comprehensive income (loss) were as follows:

	2015	2014
Revenue		389
Cost of goods sold		(629)
Gross profit		(240)
Selling and distribution expenses		(10)
Administrative and other operation expenses		(864)
Other operating income		(207)
Finance costs		(146)
Total other income (expense), net	(34)	64
		(11,653)

Impairment loss recognised on the remeasurement to fair value less costs to sell		
Loss before tax from discontinued operations	(34)	(13,056)
Tax benefit:		
Related to current pre-tax profit (loss)		(85)
Transfer of cumulative translation adjustment due to disposal of discontinued operations	798	
Profit (loss) for the year from discontinued operations	764	(13,141)

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The major classes of assets and liabilities of the BCG Companies classified as held for sale were as follows:

	At February 12, 2015	At December 31, 2014
<i>Assets</i>		
Cash and cash equivalents		91
Trade and other receivables	139	118
Other current assets	251	212
Other non-current assets	2,263	1,919
Property, plant and equipment	428	363
Mineral licenses	7,065	5,993
Assets of disposal group classified as held for sale	10,146	8,696
<i>Liabilities</i>		
Trade and other payables	2,297	2,026
Provisions	845	716
Pension obligations	3,650	3,097
Interest-bearing loans and borrowings	727	617
Other non-current liabilities	555	470
Liabilities of disposal group classified as held for sale	8,074	6,926
Net assets directly associated with disposal group	2,072	1,770

The net cash flows incurred by the BCG Companies are as follows:

	For the period from January 1 till February 12, 2015	For the year ended December 31, 2014
Operating	(91)	(738)
Investing		(17)

Financing		(105)
Net cash outflow	(91)	(860)

SUNP

On 25 May 2013, according to the decision on the closure of the plant the Group approved the plan of staff curtailment. The number of SUNP's personnel was reduced to 274 workers as of January 1, 2014. As of December 31, 2014, the number of personnel increased to 315 workers due to cease of third parties security services and redirection of these functions to SUNP's internal employees as part of the Group's efforts to reduce SUNP's costs.

The impairment of property, plant and equipment and nickel mineral license of RUB 2,600 million as of January 1, 2014 was recognised to reduce the carrying amount of the assets and liabilities of SUNP to their realizable value. The impairment of goodwill in the amount of RUB 184 million was recognised as of January 1, 2014.

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The results of SUNP presented as discontinued operations in the consolidated statement of profit (loss) and other comprehensive income (loss) were as follows for the years ended:

	December 31, 2015	December 31, 2014
Revenue	69	66
Cost of goods sold	(51)	(45)
Gross profit	18	21
Selling and distribution expenses		(1)
Administrative and other operating expenses	(115)	(133)
Other operating income	31	296
Finance costs	(30)	(32)
Other income	154	1,288
Profit for the year from discontinued operations	58	1,439

18. Property, plant and equipment

	Operating machinery		Transportation vehicles		Other construction-in-progress		Mining plant	Railway	Total
	Buildings and Land	constructions	equipment	equipment	equipment	and equipment	Ulak-Elga		
Cost									
At January 1, 2014	3,210	64,226	107,481	29,810	1,331	109,730	15,193		330,981
Additions		786	2,467	137	13	19,794	488		23,685
Assets of disposal group held for sale/Discontinued operations	(130)	(99)	(13,496)	(254)	(33)	(93)	(1,579)		(15,684)
Change in rehabilitation		(225)					(496)		(721)

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provision								
Transfers	3	8,249	15,523	1,814	49	(25,627)	(11)	
Disposals	(318)	(1,205)	(3,192)	(705)	(203)	(1,308)	(129)	(7,060)
Exchange differences	357	1,845	6,159	100	142	42	643	9,288
At December 31, 2014	3,122	73,577	114,942	30,902	1,299	102,538	14,109	340,489
Additions		417	1,052	508	29	4,249	719	6,974
Change in rehabilitation provision		49					232	281
Transfers	59	4,886	1,607	171	24	(78,565)	14	71,804
Disposals	(10)	(474)	(3,196)	(1,170)	(156)	(1,378)	(156)	(6,540)

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	Land	Buildings and construction	Operating machinery and equipment	Transportation vehicles	Other equipment	Construction- in-progress	Mining plant equipment	Railway Ulak-Elga	Total
Exchange differences	142	(190)	(174)	(12)	40	(8)			(202)
At December 31, 2015	3,313	78,265	114,231	30,399	1,236	26,836	14,918	71,804	341,002
Depreciation and impairment									
At January 1, 2014	(98)	(24,141)	(63,885)	(11,749)	(903)	(47)	(3,905)		(104,728)
Depreciation charge		(4,593)	(7,693)	(2,718)	(170)		(227)		(15,401)
Disposals		395	2,650	565	186		126		3,922
Assets of disposal group held for sale	109	88	12,756	245	28	81	1,345		14,652
Impairment	(124)	(2,414)	(5,345)	(82)	(15)	(16)			(7,996)
Exchange differences	(17)	(245)	(5,605)	(69)	(105)	(35)	(563)		(6,639)
At December 31, 2014	(130)	(30,910)	(67,122)	(13,808)	(979)	(17)	(3,224)		(116,190)
Depreciation charge		(5,008)	(5,627)	(2,745)	(56)		(218)	(334)	(13,988)
Disposals	9	396	2,619	1,092	146	16	54		4,332
Reversal of impairment/(Impairment)	67	(485)	1,331	6	(4)	(931)			(16)
Exchange differences	(5)	430	280	39	(40)				704
At December 31, 2015	(59)	(35,577)	(68,519)	(15,416)	(933)	(932)	(3,388)	(334)	(125,158)
Net book value									
At January 1, 2014	3,112	40,085	43,596	18,061	428	109,683	11,288		226,253
At December 31, 2014	2,992	42,667	47,820	17,094	320	102,521	10,885		224,299
At December 31, 2015	3,254	42,688	45,712	14,983	303	25,904	11,530	71,470	215,844

According to the results of the impairment analysis of non-current assets, impairment losses of RUB 16 million and RUB 7,996 million were recognized by the Group for the years ended December 31, 2015 and 2014, respectively (Note 19).

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(All amounts are in millions of Russian rubles, unless stated otherwise)

Assets under construction

As of December 31, 2015, 2014 and January 1, 2014, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 544 million, RUB 1,700 million and RUB 1,986 million, respectively.

In 2015, the Group transferred the railway from the Elga coal deposit to Ulak station from Construction-in-progress in the amount of RUB 71,804 million, put it into exploitation and commenced its depreciation.

Property pledged to the bank as security

Certain property, plant and equipment have been pledged to secure bank loans and borrowings granted to the Group:

	December 31, 2015	December 31, 2014	January 1, 2014
Net book value	33,510	29,899	31,764

Finance leases

The Group leases machinery and equipment and transport under a number of finance lease agreements. At the end of the term of the lease, the Group obtains ownership of the assets or has an option to purchase leased assets at a bargaining price.

	December 31, 2015	December 31, 2014	January 1, 2014
Net book value Operating machinery and equipment	4,253	4,119	4,040
Net book value Transportation vehicles	12,332	14,021	15,056

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2015 was RUB 1,954 million (2014: RUB 9,254 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 15.02% (2014: 12.04%), which is the average rate of the borrowings.

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(All amounts are in millions of Russian rubles, unless stated otherwise)

19. Impairment of goodwill and other non-current assets

As of December 31, 2015, 2014 and January 1, 2014, the Group performed an impairment analysis of goodwill and other non-current assets on the level of cash generating units (CGU). The Group considers the relationship between market capitalization and its book value, among other factors, when reviewing for indicators of impairment. Goodwill acquired through business combinations has been allocated to CGUs for impairment testing as follows (before impairment write-downs):

Cash generating units	Segment	Goodwill		
		December 31, 2015	December 31, 2014	January 1, 2014
Yakutugol	Mining	13,399	13,399	13,399
Southern Kuzbass Power Plant	Power	3,827	3,827	3,827
Bratsk Ferroalloy Plant	Steel	2,930	2,930	2,930
Kuzbass Power Sales Company	Power	1,026	1,026	1,947
Port Posiet	Mining	756	756	756
Chelyabinsk Metallurgical Plant	Steel	672	547	370
Southern Kuzbass Coal Company	Mining	143	143	143
Mechel Temryuk	Mining	69	69	69
Ekos-plus	Mining			133
WNL Staal	Steel			74
Ramateks	Steel			74
Mechel Transport	Steel			52
Total		22,822	22,697	23,774

As of December 31, 2015, 2014 and January 1, 2014, the recoverable amount of CGUs except for WNL, Ramateks and Mechel Transport was determined based on value in use. The material assumptions that drive the value in use are represented by projected prices, sales volumes, discount rates. Some of these assumptions materially deviate from the Group's historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia. All these material assumptions are based on the Group's projections and are subject to risk and uncertainty. Recoverable amount of WNL, Ramateks and Mechel Transport was determined based on fair value less cost to sell.

The forecasted period for non-mining subsidiaries of the Group was assumed to be five years to reach stabilized cash flows, and the value beyond the forecasted period was based on the terminal growth rate of 2.5% as of December 31, 2014 and January 1, 2014. As of December 31, 2015, the value beyond the forecasted period was based on the terminal growth rates of 2%-3.7%. For mining subsidiaries of the Group the forecasted period was based on the remaining life of the mines.

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(All amounts are in millions of Russian rubles, unless stated otherwise)

Discount rates used in the impairment test for goodwill and non-current assets were estimated in nominal terms on the weighted average cost of capital basis. Inflation and discount rates, range of discount rates, estimated for each year for the forecasted period, are as follows:

At January 1, 2014	Forecast period, years				
	2014	2015	2016	2017	2018
Inflation rate in Russia	5%	5%	4%	4%	4%
Inflation rate in USA	2%	2%	2%	2%	2%
Inflation rate in Europeans countries	3%	4%	4%	3%	3%
Discount rate, %	10,5%-14,5%	11,5%-15,9%	11,9%-16,6%	11,2%-16,5%	11,2%-15,5%
For the year ends December 31, 2014	2015	2016	2017	2018	2019
Inflation rate in Russia	12%	6%	5%	5%	5%
Inflation rate in Europeans countries	3%	3%	3%	4%	3%
Discount rate, %	14,6%-18,0%	14,2%-17,5%	13,9%-17,1%	13,2%-17,6%	7,9%-14,0%
For the year ends December 31, 2015	2016	2017	2018	2019	2020
Inflation rate in Russia	7,5%	5,6%	5,2%	4,6%	4,3%
Inflation rate in Europeans countries	2,6%	2,6%	2,4%	2,3%	2,3%
Discount rate, %	8,5%-18,9%	8,5%-18,9%	8,5%-18,9%	8,5%-18,9%	8,5%-18,9%

For CGUs which cash flows relate to mineral assets, future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by the Group's engineers. The Group believes that the values assigned to key assumptions and estimates represent the most realistic assessment of future trends.

Impairment of goodwill

According to the results of the impairment analysis of goodwill, an impairment loss as of January 1, 2014 was recognised in the following CGUs:

Cash generating units	Impairment loss on goodwill at January 1, 2014
Kuzbass Power Sales Company (KPSC)	921
Ekos-plus	133

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WNL Staal	74
Ramateks	74
Mechel Transport	52
Total	1,254

The remaining carrying value of the goodwill for KPSC where the Group recorded goodwill impairment as of January 1, 2014 was RUB 1,026 million. The remaining carrying value of goodwill for Ekos-plus, WNL Staal, Ramateks and Mechel Transport was RUB nil.

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According to the results of the impairment analysis, no impairment of goodwill was identified as of December 31, 2014.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2015 was recognised in the following CGUs:

Cash generating units	Impairment loss on non-current assets at December 31, 2015
Southern Kuzbass Power Plant (SKPP)	1,444
Total	1,444

Impairment of goodwill at Southern Kuzbass Power Plant (SKPP) was identified due to change in structure of raw materials and usage of steam coal instead of lean grade coal with low oxidation rate from SKCC. The remaining carrying value of the goodwill of SKPP was RUB 2,383 million as of December 31, 2015.

Impairment of non-current assets

According to the results of the impairment analysis of Non-current assets, an impairment loss accumulated as of January 1, 2014 was recognised in the following reporting units:

Cash generating units	Impairment loss on non-current assets at January 1, 2014
BCG Companies	59,039
DEMP	5,162
Ekos-plus	64
Total	64,265

The remaining carrying value of non-current assets after recognition of impairment loss as of January 1, 2014 was RUB 10,596 million for the BCG Companies, RUB 1,637 million for DEMP and RUB 85 million for Ekos-plus. Impairment loss of the BCG Companies relates to property, plant and equipment in the amount of RUB 4,177 million and mineral assets in the amount of RUB 54,862 million and is conditioned by the decreased global coal prices and

relatively high production costs which led to lower production volumes. As of December 31, 2014, the BCG Companies were recognised as discontinued operations (Note 17).

Impairment loss on non-current assets of DEMP in the amount of RUB 5,162 million was calculated by comparison of the carrying value of DEMP and its fair value less cost to sell determined based on the binding offer from a third party to acquire 100% of the shares of DEMP for the consideration of \$80,000 thousand (RUB 2,618 million at exchange rate as of January 1, 2014). The amount of \$20,000 thousand (RUB 656 million at exchange rate as of January 1, 2014) was planned to be paid as of the date of disposal. The remaining balance of \$60,000 thousand (RUB 1,962 million at exchange rate as of January 1, 2014) was to be paid within two years after the disposal date under the interest-free loan agreement. Further negotiations on the sale of DEMP were suspended and deal was cancelled. Impairment loss of DEMP mainly related to property, plant and equipment in the amount of RUB 5,129 million.

Impairment loss of Ekos-plus relates to property, plant and equipment in the full amount of RUB 64 million. The remaining carrying value of property, plant and equipment of Ekos-plus as of January 1, 2014 was RUB 85 million.

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According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2014:

Cash generating units	Impairment loss on non-current assets at December 31, 2014
Izhstal	6,669
DEMP	1,283
MS Romania	63
Total	8,015

The carrying value of non-current assets after impairment loss of Izhstal was written to RUB nil as of December 31, 2014. Impairment loss of Izhstal mainly relates to property, plant and equipment in the amount of RUB 6,666 million. The carrying value of non-current assets after impairment loss of DEMP was written down to nil as of December 31, 2014. Impairment loss was recognised in the amount of RUB 1,283 million (including RUB 1,279 million on property, plant and equipment) as of December 31, 2014 due to the existing uncertainty in the economic and political situation in Ukraine. Fair value less cost to sell of MS Romania was determined on the base of valuation reports of property. The remaining carrying value of property, plant and equipment of MS Romania after impairment loss was RUB 239 million as of December 31, 2014.

Based on comparison of carrying value and recoverable value of Ekos-plus as of December 31, 2014, excess of recoverable value over its carrying value was identified; therefore a reversal of previously recorded impairment loss was recognised in the amount of RUB 19 million. The carrying value of property, plant and equipment of Ekos-plus after reversal of impairment loss was RUB 94 million as of December 31, 2014.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2015:

Cash generating units	Impairment loss on non-current assets at December 31, 2015
Mechel Materials	5,982
Total	5,982

The carrying value of property, plant and equipment related to grinding mixing complex at Mechel Materials was written down to RUB nil as of December 31, 2015 due to unfavorable market conditions including decline in production volume of construction industry, cut-off of subsidy in related industries and forecasts of slow market recovery in the future.

According to the results of the impairment analysis, reversal of previously recognised impairment loss of non-current assets was identified for the following CGUs as of December 31, 2015:

Cash generating units	Reversal of previously recognised impairment loss of non-current assets at December 31, 2015
Izhstal	5,966
Total	5,966

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(All amounts are in millions of Russian rubles, unless stated otherwise)

Based on the comparison of carrying value and recoverable value of Izhstal, as of December 31, 2015, excess of recoverable value over its carrying value was identified; therefore reversal of previously recorded impairment loss as of December 31, 2014 was recognised in the amount of RUB 5,966 million due to optimization of product lines in favor of high value added long products and hardware and devaluation of ruble to U.S. dollar, which positively affected Izhstal's margin. The carrying value of property, plant and equipment of Izhstal after reversal of impairment loss was RUB 5,966 million as of December 31, 2015.

Sensitivity analysis

Reasonably possible change in key assumptions used in calculations of value in use could impact recoverable amount which was most sensitive to the growth of discount rate, cash flows growth rates after the forecasted period and change in operational profit due to changes in sales and extraction volumes, sales prices and costs.

Based on the sensitivity analysis carried out as of December 31, 2014, a 5% decrease in future planned revenues would trigger the impairment of goodwill of KPSC in the amount of RUB 1,026 million and property, plant and equipment in the amount of RUB 629 million and the impairment of property, plant and equipment of HBL in the amount of RUB 448 million. Effects of reasonably possible changes in other key assumptions used in recoverable amount of CGUs as of December 31, 2014 do not lead to excess of carrying value over recoverable value.

Based on the sensitivity analysis carried out as of December 31, 2015, a 1% decrease in cash flows growth rate after the forecasted future and a 1% increase in discount rate would trigger additional impairment of goodwill at SKPP in the amount of RUB 188 million and RUB 286 million, respectively. A 5% decrease in future planned revenues would trigger additional impairment of goodwill at SKPP of RUB 1,721 million, impairment of goodwill of RUB 1,026 million, property, plant and equipment of RUB 630 million at KPSC and property, plant and equipment of RUB 383 million at BFP and would allow to reverse RUB 5,732 million of previously recorded impairment of Izhstal which is less than the full reversal recorded by the Group by RUB 235 million.

The calculated value in use of Izhstal is sensitive to currency exchange rates volatility. If US dollar appreciates to Russian ruble by 4.7%, the value in use of Izhstal would equal the carrying value after reversal of impairment loss RUB 5,966 million. The strengthening of exchange rate of Russian ruble to U.S. dollar by 18.9% would not allow the Group to reverse any of previously recorded impairment, as the value in use would fall to nil.

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	Goodwill	Mineral licenses
Cost		
At January 1, 2014	32,781	126,680
Assets of disposal group held for sale /Discontinued operations		(122,002)
Exchange differences	682	51,034
At December 31, 2014	33,463	55,712
Additions		71
Disposal	(88)	
Exchange differences	(174)	
At December 31, 2015	33,201	55,783
Amortisation and impairment		
At January 1, 2014	(10,261)	(74,953)
Depletion		(1,759)
Assets of disposal group held for sale /Discontinued operations		105,075
Exchange differences	(505)	(43,953)
At December 31, 2014	(10,766)	(15,590)
Impairment	(1,444)	
Amortization		(1,676)
Disposal	88	
Exchange differences	299	
At December 31, 2015	(11,823)	(17,266)
Net book value		
At January 1, 2014	22,520	51,727
At December 31, 2014	22,697	40,122

At December 31, 2015

21,378

38,517

Most of the existing mineral licenses (97%) relate to coal mines and were recorded upon acquisition of mining subsidiaries.

The carrying values of the mineral licenses were reduced proportionate to the depletion of the respective mineral reserves at each deposit related to mining and production of reserves adjusted for the reserves re-measurement and purchase accounting effects. Reduction in carrying values of the mineral licenses is included in the depletion charge for the period within the Cost of goods sold in the consolidated statement of profit (loss) and other comprehensive income (loss). No residual value is assumed in the mineral license valuation.

To determine the value of the mineral licenses as of December 31, 2015, the Group used quantities of underlying mineral assets, production data and other factors, including economic viability and any new exploration data.

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The Group's mining segment production activities are located within Russia. The Group's mineral reserves and deposits are situated on the land belonging to government and regional authorities. Mining minerals require a subsoil license from the state authorities with respect to identified mineral deposits. The Group obtains licenses from such authorities and pays certain taxes to explore and produce from these deposits. These licenses expire up to 2037, with the most significant licenses expiring between 2019 and 2024, and management believes that they may be extended at the initiative of the Group without substantial cost. Management intends to extend such licenses for deposits expected to remain productive subsequent to their license expiry dates.

As of December 31, 2015, 2014 and January 1, 2014, the Group performed an impairment analysis of goodwill (Note 19).

21. Income tax

The major components of income tax (expense) benefit for the years ended December 31, 2015 and 2014 are:

Recognised in profit or loss	2015	2014
<i>Current income tax</i>		
Current income tax charge	(331)	(502)
Adjustments in respect of current income tax of previous year	(45)	(6,201)
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	(7,946)	15,525
Income tax (expense) benefit reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	(8,322)	8,822

In January 2013, the Group created the consolidated group of taxpayers in accordance with part one of the Tax code of the Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ. The existence of the consolidated group of taxpayers is subject to compliance with several conditions stated in the Tax code of the Russian Federation. The Group believes that these conditions are satisfied as of December 31, 2015. As of January 1, 2013, the consolidated group of taxpayers consisted of 16 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. As of January 1, 2014, the number of subsidiaries included in the consolidated group of taxpayers increased to 20 participants and did not change as of December 31, 2015.

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For subsidiaries which are not included in the consolidated group of taxpayers, income taxes are calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognised in the accompanying consolidated financial statements in the amount determined by the Group in accordance with IAS 12 Income Taxes.

Taxes represent the Group's provision for profit tax. During 2013-2015, income tax was calculated at 20% of taxable profit in Russia, at 10.8% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan. The Group's subsidiaries incorporated in Liechtenstein and British Virgin Islands are exempt from profit tax. In the U.S., the tax rates were as follows: 39.55% in 2013-2015. Amendments in the tax legislation of

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

the United Kingdom resulted in the decrease in tax rate from 23% since April 1, 2013 to 21% since April 1, 2014. The tax legislation of Ukraine was amended to decrease the statutory income tax rate to 19% from January 1, 2013 and 18% from January 1, 2014 and thereafter.

The reconciliation between the income tax (benefit) expense computed by applying the Russian enacted statutory tax rates to the income from continuing operations before tax and non-controlling interest, to the income tax (expense) benefit reported in the financial statements is as follows:

	2015	2014
Loss before tax from continuing operations	(107,128)	(131,087)
Income tax benefit at statutory income tax rate of 20%	21,426	26,217
<i>Adjustments:</i>		
Adjustments in respect of income tax related to previous years	(1,021)	(6,201)
Unrecognized current year tax losses and write-off of previously recognized asset on tax losses	(19,822)	286
Non-deductible expenses for tax purposes	(4,175)	(7,367)
Non-deductible interest expense	(2,588)	(3,815)
Effect of penalties on breach of credit agreements (unrecognized deferred tax asset)	(3,025)	
Social expenditures	(134)	(116)
Tax penalties and interest	(36)	(794)
Effect of different tax rates in foreign jurisdictions	26	(37)
Effect of the disposal of subsidiaries	17	(204)
Change in uncertain tax positions	1,029	862
Other	(19)	(9)
At the effective income tax rate of -7.8% (6.7% in 2014)	(8,322)	8,822
Income tax (expense) benefit reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	(8,322)	8,822

The deferred tax balances were calculated by applying the currently enacted statutory tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse.

On January 9, 2014, the Group failed to sustain its position in the court with respect to the income tax claims in the amount of RUB 3,977 million, including penalties and fines. The Group does not intend to appeal the decision. The Group recognized this income tax as income tax expense in the amount of RUB 3,666 million included in the line Adjustments in respect of current income tax of previous years and penalty in the amount of RUB 311 million included in line Tax penalties and interest in the income tax reconciliation in 2014.

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The amounts reported in the accompanying consolidated financial statements consisted of the following:

	January 1, 2014	Tax income/(expense) during the period recognised in profit or loss	Disposals of subsidiaries	Foreign currency translation effect	December 31, 2014
Deferred tax assets					
Property, plant and equipment	786	23		11	820
Rehabilitation provision	214	9			223
Inventory	140	(33)		18	125
Accounts receivable	63	125		2	190
Bad debt allowance	461	250		47	758
Loans & borrowings	9	3,417		2	3,428
Finance lease liabilities	2,077	(445)		7	1,639
Accounts payable and other liabilities	487	547		7	1,041
Net operating loss carry-forwards	4,584	12,094		183	16,861
Other assets	332	(9)		5	328
Deferred tax liabilities					
Property, plant and equipment	(14,628)	(1,493)		(359)	(16,480)
Mineral licenses	(8,341)	321			(8,020)
Rehabilitation provision	(17)	(10)			(27)
Inventory	(1,433)	471		(8)	(970)
Accounts receivable	(89)	(15)		(35)	(109)
Bad debt allowance	(229)	54		(2)	(177)
Loans & borrowings	(1,129)	527		(2)	(604)
Accounts payable and other liabilities	(48)	(34)		4	(78)
Other assets	(197)	(304)		(62)	(563)
Deferred tax assets (liabilities), net	(16,958)	15,525		(182)	(1,615)

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	January 1, 2015	Tax income/(expense) during the period recognised in profit or loss	Disposals of subsidiaries	Foreign currency translation effect	December 31, 2015
Deferred tax assets					
Property, plant and equipment	820	265	(30)		1,055
Rehabilitation provision	223	288		(1)	510
Inventory	125	(48)		(4)	73
Accounts receivable	190	79		(11)	258
Bad debt allowance	758	50	(2)	48	854
Loans & borrowings	3,428	(3,205)		1	224
Finance lease liabilities	1,639	(133)		2	1,508
Accounts payable and other liabilities	1,041	(279)		1	763
Net operating loss carry-forwards	16,861	(6,258)	3	5	10,611
Other	328	(4)			324
Deferred tax liabilities					
Property, plant and equipment	(16,480)	308		(27)	(16,199)
Mineral licenses	(8,020)	319			(7,701)
Rehabilitation provision	(27)	19			(8)
Inventory	(970)	372		(6)	(604)
Accounts receivable	(109)	62			(47)
Bad debt allowance	(177)				(177)
Loans & borrowings	(604)	151		(1)	(454)
Accounts payable and other liabilities	(78)	(35)			(113)
Other	(563)	103		(15)	(475)
Deferred tax assets (liabilities), net	(1,615)	(7,946)	(29)	(8)	(9,598)

Recognised in the consolidated statement of financial position information

	December 31, 2015	December 31, 2014	January 1, 2014
Deferred tax assets	1,492	1,438	517
Deferred tax liabilities	(11,090)	(3,053)	(17,475)
Deferred tax liabilities, net	(9,598)	(1,615)	(16,958)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

For financial reporting purposes, the Group has not recognised deferred tax assets in the amount of RUB 37,747 million (2014: RUB 28,312 million, January 1, 2014: RUB 18,954 million) on losses in the amount

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(All amounts are in millions of Russian rubles, unless stated otherwise)

of RUB 201,624 million (2014: RUB 162,506 million, January 1, 2014: RUB 103,668 million) that are available to carry forward against future taxable income of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will be available for utilization of such assets. Deferred tax assets on net operating loss carry forwards which are considered to be realized in the future, are mostly related to the Russian subsidiaries. For the Russian income tax purposes, certain subsidiaries of the Group have accumulated tax losses which expire in 2017-2025.

A deferred tax liability of approximately RUB 208 million, RUB 163 million and RUB 94 million as of December 31, 2015, 2014 and as of January 1, 2014, respectively, has not been recognised for temporary differences related to the Group's investment in foreign subsidiaries primarily as a result of unremitted earnings of consolidated subsidiaries, as it is the Group's intention, generally, to reinvest such earnings permanently.

Similarly, a deferred tax liability of RUB 817 million, RUB 1,090 million and RUB 1,679 million as of December 31, 2015, 2014 and as of January 1, 2014, respectively, has not been recognised for temporary difference related to unremitted earnings of consolidated domestic subsidiaries as management believes the Group has both the ability and intention to effect a tax-free reorganization or merger of major subsidiaries into Mechel.

There are no income tax consequences attached to the payment of dividends by the Group to its shareholders.

Probable income tax risks of approximately RUB 1,136 million, RUB 1,769 million and RUB 2,560 million as of December 31, 2015 and 2014 and as of January 1, 2014 have been accrued in the Group's consolidated financial statements. Possible income tax risks of approximately RUB 131 million, RUB 494 million and RUB 4,976 million as of December 31, 2015 and 2014 and as of January 1, 2014, respectively, have not been recognised in the Group's consolidated financial statements.

22. Trade and other payables

	December 31, 2015	December 31, 2014	January 1, 2014
Trade payables	26,300	26,373	27,131
Other payables	28,224	35,120	24,842
Total trade and other payables	54,524	61,493	51,973

All trade and other payables were short-term as of December 31, 2015, 2014 and January 1, 2014.

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Other payables include accruals for breach of contracts, payables for property, plant and equipment acquired, salaries payable, dividends payable and other.

	December 31, 2015	December 31, 2014	January 1, 2014
<i>Other payables:</i>			
Accruals for breach of contracts	1,038	1,050	
Accounts payable for fixed assets	3,593	4,545	6,201
Salaries payable	1,483	1,583	1,665
Dividends payable, common shares	36	103	108
Dividends payable, preferred shares		1	0
Other	22,074	27,838	16,868
	28,224	35,120	24,842

The balance of other payables as of December 31, 2015 includes payables for acquisition of DEMP of RUB 14,799 million. The amount of other payables as of December 31, 2014 includes payables for acquisition of DEMP of RUB 15,888 million and payables to VTB originating from the termination of interest swap agreement with VTB Bank (Austria) of RUB 5,733 million. The balance of other payables as of January 1, 2014 is mainly presented by payables for acquisition of DEMP of RUB 12,032 million.

23. Provisions

	Rehabilitation provision	Provisions for legal claims	Tax provisions	Other provisions	Total
At January 1, 2014	4,400	421	548	465	5,834
Arising during the year	284	834	41	240	1,399
Utilized		(160)	(22)	(103)	(285)
Revision in estimated cash flow	548				548
Unused amounts reversed		(178)	(116)		(294)
Discount rate adjustment and imputed interest	(1,736)				(1,736)

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Liabilities of disposal group held for sale/Discontinued operations	(297)			(213)	(510)
Exchange rate differences		169		3	172
At December 31, 2014	3,199	917	620	392	5,128
Current	201	917	620	392	2,130
Non-current	2,998				2,998
Arising during the year	403	1,321	361	27	2,112
Utilized		(513)	(504)	(81)	(1,098)
Revision in estimated cash flow	(1,027)				(1,027)
Unused amounts reversed		(325)	(101)		(426)
Discount rate adjustment and imputed interest	1,129				1,129
Exchange rate differences			104	49	153
At December 31, 2015	3,704	1,400	480	387	5,971
Current	265	1,400	480	387	2,532
Non-current	3,439				3,439

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Rehabilitation provision

The Group has numerous site rehabilitation provisions that it is required to perform under law or contract once an asset is permanently taken out of service. The main part of these obligations is not expected to be paid for many years, and will be funded from the general Group's resources at the time of removal. The Group's rehabilitation provisions primarily relate to its steel and mining production facilities with related landfills and dump areas and its mines.

Provisions for legal claims

The Group is subject to various lawsuits, claims and proceedings related to matters incidental to the business. Accruals of probable cash outflows have been made based on an assessment of a combination of litigation and settlement strategies. It is possible that results of operations in any future period could be materially affected by changes in assumptions or by the effectiveness of such strategies.

Tax provisions

Management believes that it has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Group accrued RUB 480 million, RUB 620 million and RUB 548 million of other tax claims that management believes are probable as of December 31, 2015 and 2014 and January 1, 2014, respectively.

As of December 31, 2015, the Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be materially misstated or misleading.

24. Pensions and other post-employment benefit plans

In addition to the state pension and social insurance required by the Russian legislation, the Group has a number of defined benefit occupational pension plans that cover the majority of production employees and some other postretirement benefit plans.

A number of the Group's companies provide their former employees with old age retirement pensions, which are conditional to the member qualifying for the state old age pension. Some employees are also eligible for an early retirement in accordance with the state pension regulations and specific coal industry rules (so-called territorial treaties), which also provide for certain post-retirement benefits in addition to old age pensions. Additionally the Group voluntarily provides financial support, of a defined benefit nature, to its old age and disabled pensioners, who did not acquire any pension under the occupational pension program.

The Group also provides several types of long-term employee benefits such as death-in-service benefit and invalidity pension of a defined benefit nature. The Group may also provide the former employees with reimbursement of coal and wood used for heating purposes. In addition, one-time lump sum benefits are paid to employees of a number of the Group's companies upon retirement depending on the employment service with the Group and the salary level of an individual employee. All pension plans are unfunded until the qualifying event occurs.

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Several entities contribute certain amounts to non-state pension fund (Mechel Fund), which, together with amounts earned from investing the contributions, are intended to provide pensions to members of pension plans, which affect future contributions. However, pursuant to agreements between the Group and the non-state pension fund, under certain circumstances, these assets are not effectively restricted from possible withdrawal by the employer. Based on this fact, these assets do not qualify as plan assets under IFRS and these pension schemes are considered to be fully unfunded. The Group has no liabilities to provide either pension or lump sum upon retirement benefits, or both, to the employees who do not participate in the corporate pension plan.

As of December 31, 2015, there were 54,866 active participants under the defined benefit pension plans and 39,201 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2014 and January 1, 2014, the related figures were 56,508 and 59,199 of active participants under the defined benefit pension plans and 40,574 and 33,913 pensioners receiving monthly pensions or other regular financial support from these plans, respectively. The majority of employees at the Group's major subsidiaries belong to the trade unions.

The total number of the BCG Companies' employees and their dependents eligible for benefits as of January 1, 2014 was 364 and the total number of retirees and their dependents was 175. The majority of employees belonged to the United Mine Workers of America (UMWA).

Actuarial valuation of pension and other post-employment and postretirement benefits for the major subsidiaries was performed in April 2016, with the measurement date of December 31, 2015, 2014, and January 1, 2014. Members census data as of that date was collected for all relevant business units of the Group.

Pension obligations and expenses determined by the Group are supported by an independent qualified actuary in accordance with the Projected Unit Credit method of calculation of actuarial present value of future liabilities.

Net employee benefit obligations	December 31, 2015	December 31, 2014	January 1, 2014
Defined benefit obligation	(4,866)	(4,517)	(4,170)
Other post-retirement benefit obligations			(1,610)
Total pension obligations	(4,866)	(4,517)	(5,780)

Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)***a) Defined benefit obligation**

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2014 are, as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
January 1, 2014	(4,353)	183	(4,170)
Current service cost	(148)		(148)
Net interest expense	(315)	13	(302)
Curtailement / settlement gain	58		58
Past service cost	96		96
Sub-total included in profit or loss	(309)	13	(296)
Benefit paid	251	(16)	235
Business combinations	(17)		(17)
Exchange difference	(370)	96	(274)
Actuarial changes arising from changes in demographic assumptions	(285)		(285)
Actuarial changes arising from changes in financial assumptions	229		229
Experience adjustments	55		55
Sub-total included in OCI	(371)	96	(275)
Contributions by employer		6	6
December 31, 2014	(4,799)	282	(4,517)

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2015 are, as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
December 31, 2014	(4,799)	282	(4,517)
Current service cost	(167)		(167)
Net interest expense	(418)	5	(413)

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Curtailment / settlement gain	142		142
Past service cost	(25)		(25)
Sub-total included in profit or loss	(468)	5	(463)
Benefit paid	432	(21)	411
Exchange difference	(155)	45	(110)
Actuarial changes arising from changes in demographic assumptions	116		116
Actuarial changes arising from changes in financial assumptions	(119)		(119)
Experience adjustments	(191)		(191)
Sub-total included in OCI	(349)	45	(304)
Contributions by employer		7	7
December 31, 2015	(5,184)	318	(4,866)

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

Amounts of the defined benefit obligations recognized in the consolidated statement of the financial position were as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Current liabilities	(1,120)	(1,072)	(823)
Noncurrent liabilities	(3,746)	(3,445)	(3,347)
Total net pension obligations	(4,866)	(4,517)	(4,170)

The plan asset allocation of the investment portfolio was as follows as of December 31, 2015, 2014 and January 1, 2014:

	December 31, 2015	December 31, 2014	January 1, 2014
Debt instruments	179	142	94
Equity instruments	80	76	50
Property	11	9	7
Cash and cash equivalents	29	29	19
Other assets	19	26	13
Total plan assets	318	282	183

The investment strategy employed by the Group includes an overall goal to attain a maximum investment return with a strong focus on limiting the amount of risk taken. The strategy is to invest with a medium- to long-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules to avoid concentrations of investments. The vast majority of plan assets are measured using quoted prices in active markets for identical assets (Level 1 assets). The investment portfolio is primarily comprised of debt and equity instruments. Real estate and other alternative investments asset can be included when these have favorable return and risk characteristics. Debt instruments include investment grade and high yield corporate and government bonds with fixed yield and mostly short- to medium maturities. Equity instruments include selected investments in equity securities listed on active exchange market. The valuation of debt and equity securities is determined using a market approach, and is based on an unadjusted quoted prices. The expected return on plan assets takes into account historical returns and the weighted average of estimated future long-term returns based on capital market assumptions for each asset category.

Staff reduction, curtailments and amendments of benefit programs at several entities lead to appropriate curtailment gains and past service costs in reporting periods. Almost all of Group entities have a practice of lump-sum financial support to former employees, so the risk of human longevity less significant than in the case of life-long benefits. This risk is controlled by using rather conservative life expectancy tables. The risk of a significant fluctuation in interest rates is offset by rather conservative actuarial assumptions in respect of discount rates. The Group does not identify the unusual, specific business plan or risk, as well as any significant risk concentrations. The Group performs sensitivity analysis calculating whole defined benefit obligation in different actuarial assumptions and comparing the results. There are no changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation is about 6 years at both reporting dates.

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The key actuarial assumptions used to determine benefit obligations were as follows as of December 31, 2015, 2014 and January 1, 2014:

	December 31, 2015	December 31, 2014	January 1, 2014
<u>Discount rate</u>			
Russian entities	9.70%	11.50%	7.90%
German entities	1.93%	1.60%	3.20%
Ukrainian entity	varying from 9.6% to 8%	varying from 9.6% to 8%	10.00%
Austrian entities	2.0%	2.50%	3.50%
<u>Inflation rates</u>			
Russian entities	5.80%	6.50%	5.00%
Ukrainian entity	7.60%	7.60%	5.30%
<u>Expected return on plan assets</u>			
Austrian entities	1.74%	6.70%	4.32%
<u>Rate of compensation increase</u>			
Russian entities	7.10%	8.90%	6.58%
German entities	4.00%	4.00%	4.00%
Ukrainian entity	10.60%	10.60%	5.30%
Austrian entities	2.25%	2.25%	2.50%

The results of sensitivity analysis of pension benefit obligation for the Russian and Ukrainian entities as of December 31, 2015, 2014 and January 1, 2014 are presented below:

	Impact on defined benefit obligation		
	2015	2014	2013
<u>Discount rate</u>			
1% increase	-6.98%	-4.96%	-5.89%
1% decrease	6.20%	5.89%	6.67%
<u>Inflation rate</u>			
1% increase	3.40%	2.73%	1.89%
1% decrease	-4.65%	-2.54%	-1.79%
<u>Rate of compensation increase</u>			
1% increase	2.18%	2.99%	4.12%
1% decrease	-4.09%	-2.69%	-3.65%

Turnover rate

3% increase	-4.65%	-3.93%	-5.36%
3% decrease	4.27%	6.21%	7.19%

The results of sensitivity analysis of pension benefit obligation for Austrian entities as of December 31, 2015 and 2014 and January 1, 2014 are presented below:

<u>Discount rate</u>	Impact on defined benefit obligation		
	2015	2014	2013
1% increase	-9.90%	-9.90%	-9.90%
1% decrease	11.90%	11.90%	11.90%

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The results of sensitivity analysis of pension benefit obligation for German entities as of December 31, 2015 and 2014 and January 1, 2014 are presented below:

	Impact on defined benefit obligation		
	2015	2014	2013
Discount rate			
1% increase	-12.00%	-12.00%	-12.00%
1% decrease	18.00%	18.00%	18.00%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumption constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculation the recognised pension liability.

The following payments are expected contributions to the defined benefit plan in the future years:

	December 31, 2015
Within the next 12 months (next annual reporting period)	1,120
Between 2 and 5 years	1,509
Between 5 and 10 years	1,422
Beyond 10 years	511
Total expected payments	4,562

b) Other post-retirement benefit obligations

Changes in the present value of the other post-retirement benefit obligations for 2014 are, as follows:

	Other post-retirement benefit obligations
January 1, 2014	(1,610)
Current service cost	(31)
Net interest expense	(89)

Sub-total included in profit or loss of discontinued operations	(120)
Benefit paid	55
Other post-retirement benefit obligations reclassified to liabilities held for sale	2,952
Exchange difference	(1,151)
Actuarial changes arising from changes in financial assumptions	(126)
Sub-total included in OCI	(1,277)

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Amounts of the other post-retirement benefit obligations recognized in the consolidated statement of the financial position were RUB 54 million within current liabilities and RUB 1,556 million within non-current liabilities.

The key actuarial assumptions used to determine other post-retirement benefit obligations were as follows as of December 31, 2014 and January 1, 2014:

	December 31, 2014	January 1, 2014
Discount rate	4.41%	5.37%
Health care cost trend rate	8.00% for Pre-65 Medical and 7.00% for Post-65 Medical	8.50% for Pre-65 Medical and 7.25% for Post-65 Medical
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2022	2021 for Pre-65 Medical and 2019 for Post-65 Medical

The results of sensitivity analysis of other post-retirement benefit obligations as of December 31, 2014 and January 1, 2014 are presented below:

	Impact on other post-retirement benefit obligation	
	2014	2013
<u>Health Care rate</u>		
1% increase	20.40%	19.00%
1% decrease	-15.80%	-14.80%

25. Other taxes

	December 31, 2015	December 31, 2014	January 1, 2014
<i>Other taxes payable</i>			
VAT payable	2,364	3,282	2,139
Payroll taxes	3,622	3,502	3,256
Property tax	696	1,632	534
Mineral extraction tax	172	168	576

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Land tax	557	541	376
Land lease	478	395	273
Other	145	127	286
Total	8,034	9,647	7,440

26. Issued capital and reserves

Common shares

The capital stock of Mechel PAO consists of 416,270,745 common shares, each with a nominal value of 10 Russian rubles, all of which are fully paid, issued and outstanding under the Russian law. The Group is authorized to issue an additional 81,698,341 common shares with a nominal value of 10 Russian rubles each.

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MECHEL PAO

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Preferred shares

On April 30, 2008, Mechel's Extraordinary Shareholders' Meeting adopted changes to its Charter, authorizing up to 138,756,915 preferred shares with a nominal value of 10 Russian rubles each (representing 25% of the Mechel PAO's share capital). Under the Russian law and the Mechel PAO's Charter, these stocks are non-cumulative and have no voting rights, unless dividends are not paid in the year. The dividend yield is also fixed by the Charter and amounts to 0.2% of Mechel's consolidated net income per 1% of preferred stocks issued.

Distributions made and proposed

In accordance with applicable legislation, Mechel and its subsidiaries can distribute all profits as dividends or transfer them to reserves. Dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the statutory financial statements of both Russian and foreign Group's subsidiaries. Dividends from Russian companies are generally subject to a 13% withholding tax for residents (9% for the periods prior to 2015) and 15% for non-residents, which could be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

Effective January 1, 2008, intercompany dividends may be subject to a withholding tax of 0% (if at the date of dividends declaration, the dividend-recipient Russian company held a controlling (over 50%) interest in the share capital of the dividend payer for a period over one year and the residence of the dividend distribution company is not included into the Ministry of Finance offshore list).

On June 30, 2015, one of the Group's subsidiaries declared a dividend of RUB 380 thousand and Mechel declared a dividend of RUB 4,163 thousand to the holders of preferred shares for 2014. The dividends declared for 2014 were fully paid to the shareholders during the year ended December 31, 2015.

On June 30, 2014, one of the Group's subsidiaries declared a dividend of RUB 1,670 thousand and Mechel declared a dividend of RUB 4,163 thousand to the holders of preferred shares for 2013. The dividends declared for 2013 were partially paid to the shareholders in the amount of RUB 870 thousand as of December 31, 2014.

Additional-Paid-In-Capital

In 2015, additional-paid-in-capital was increased by RUB 2,730 million due to the acquisition of non-controlling interests of 22.95%, 0.04% and 0.39% in certain Group's subsidiaries with the carrying value of RUB 2,842 million.

Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)**Earnings (Loss) per share (EPS)*

Basic EPS is calculated by dividing the (loss) profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2015	2014
Net loss from continuing operations	(115,450)	(122,265)
Less: Net income from continuing operations attributable to non-controlling interests	458	(1,564)
Net loss attributable to ordinary equity holders from continuing operations	(115,908)	(120,701)
Net loss from discontinued operations	822	(11,702)
Less: Net income from discontinued operations attributable to non-controlling interests	77	301
Net profit (loss) attributable to ordinary equity holders from discontinued operations	745	(12,003)
Loss attributable to ordinary equity holders	(115,163)	(132,704)

There were no dilutive securities issued as of December 31, 2015, 2014 and January 1, 2014.

	2015	2014
(Loss) profit per share total (Russian rubles per share)	(276.65)	(318.79)
Including:		
from continuing operations (Russian rubles per share)	(278.44)	(289.96)
from discontinued operations (Russian rubles per share)	1.79	(28.83)

27. Other income/expenses**27.1. Administrative and other operating expenses**

General, administrative and other operating expenses are comprised of the following:

	2015	2014
Wages, salaries and social security costs	8,287	7,637
Office expenses	1,333	1,274
Pension costs	1,095	885
Movement in provision for legal claims	996	656
Loss from disposal of property, plant and equipment	806	524
Depreciation	690	1,033
Audit and consulting services	570	625
Consumables	437	432
Social expenses	387	444
Rent	259	242
Fines and penalties related to business contracts	236	275
Write off of accounts receivable	247	185
Banking charges and services	168	222
Business trips	165	154
Other	1,624	1,727
Total	17,300	16,315

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Employee benefits expenses are comprised of the following:

	2015	2014
Included in Cost of sales:		
Wages and salaries	19,867	20,083
Social security costs	1,814	1,953
Pension costs	4,367	4,378
Post-employment benefits other than pensions	157	146
Included in Selling and distribution expenses:		
Wages and salaries	3,966	3,928
Social security costs	614	504
Pension costs	410	359
Post-employment benefits other than pensions		1
Included in Administrative and other operating expenses:		
Wages and salaries	7,631	6,976
Social security costs	656	661
Pension costs	1,095	885
Total	40,577	39,874

27.3. Other operating income

Other operating income is comprised of the following:

	2015	2014
Curtailed gain and past service costs	142	58
Revision in estimated cash flows of rehabilitation provision	47	236
Other operating income		557
Total	189	851

Revision in estimated cash flows of rehabilitation provision relates to changes in the discount rate, in the planned volumes of works, change in costs of rehabilitation expenses and other reasons.

In 2015, the Group recognised curtailment gain on DEMP pension obligations due to mass layoffs of employees and decrease in salaries conditioned by the situation in Ukraine. In 2014, the Group recorded effect of defined benefits plans amendments at BMP and SKCC.

27.4. Finance income

Finance income is comprised of the following:

	2015	2014
Interest income from investments	134	98
Income from the discounting of financial instruments	49	9
Total	183	107

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Finance costs are comprised of the following:

	2015	2014
Interest on loans and borrowings	(38,664)	(23,758)
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	(18,525)	(1,516)
Finance charges payable under finance leases	(1,673)	(1,816)
Fines and penalties on overdue finance leases	(642)	(313)
Total interest expenses	(59,504)	(27,403)
Interest expenses under pension liabilities	(400)	(297)
Expenses related to discounting of financial instruments	(175)	(154)
Accretion expense	(373)	(256)
Total	(60,452)	(28,110)

The interest on loans and borrowings includes fines and penalties on overdue loans and borrowing payments and overdue interest payments of RUB 18,525 million and RUB 1,516 million for 2015 and 2014, respectively. The finance charges payable under finance leases includes fines and penalties on overdue finance lease payments of RUB 642 million and RUB 313 million for 2015 and 2014, respectively.

27.6. Other income and other expenses

Other income is comprised of the following:

	2015	2014
Gain on accounts payable with expired legal term	222	37
Gain from sale of scrap materials	185	20
Dividends received	8	
Gain on sale of investments in equity securities		483
Gain on sales and purchases of foreign currencies		143
Other income	111	1

Total	526	684
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Other expenses are comprised of the following:

	2015	2014
Loss on sales and purchases of foreign currencies	(273)	
Loss on securities repurchase agreement		(1,297)
Loss from disposal of subsidiaries	(19)	(89)
Other expenses	(55)	(100)
Total	(347)	(1,486)

In 2014, the Group recognised a loss of RUB 1,297 million related to the failure of counterparty to a securities repurchase agreement to return certain securities to the Group.

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Gain on sale of investments occurred as a result of disposal of investments in equity securities to third parties in 2015 and 2014. Gain on accounts payable with expired legal term constitutes gain on the write-off of payable amounts that were written-off due to legal liquidation of the creditors or expiration of the statute of limitation.

28. Segment information

The Group's operations are presented in three business segments as follows:

Steel segment, comprising production and sales of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, value-added downstream metal products, including forgings, stampings, and hardware, ferrosilicon;

Mining segment, comprising production and sales of coal (coking and steam) and middlings, coke and chemical products, and iron ore, which supplies raw materials to the Steel and Power segments and also sells substantial amounts of raw materials to third parties;

Power segment, comprising generation and sales of electricity and heat power, which supplies electricity and heat power to the Steel and Mining segments and also sells a portion of electricity and heat power to third parties.

These segments are combinations of subsidiaries and have separate management teams and offer different products and services.

The above three segments meet criteria for reportable segments. No operating segments have been aggregated to form the above reportable operating segments. Subsidiaries are consolidated by the segment to which they belong based on their products and by which they are managed. The Group's management evaluates performance of the segments based on segment revenues, gross margin and operating income (loss). Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. The accounting policies used by the Group in reporting segments internally are the same as those used for preparation of consolidated financial statement and in the respective quantitative and qualitative notes of the financial statements therefore no reconciliation between segment information and consolidated assets, liabilities and operating results is performed.

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Year ended December 31, 2015	Mining	Steel	Energy	Adjustments and eliminations	Consolidated
Revenues from external customers	80,632	146,032	26,477		253,141
Inter-segment revenues	28,091	6,972	14,990	(50,053)	
Gross profit	57,442	33,395	11,288	(318)	101,807
Gross margin, %	52.8	21.8	27.2		40.2
Depreciation, depletion and amortization	9,106	4,651	328		14,085
Loss on write-off of property, plant and equipment	199	492			691
Impairment of goodwill and non-current assets		(16)	(1,444)		(1,460)
Operating profit	15,895	8,456	35	(318)	24,068
Finance income	142	38	3		183
Intersegment finance income	887	307	53		1,247
Finance cost	(33,656)	(24,767)	(2,029)		(60,452)
Intersegment finance cost	(225)	(878)	(144)		(1,247)
Profit (loss) after tax for the year from discontinued operations, net	764	87	(29)		822
Loss for the year	(71,563)	(40,626)	(2,121)	(318)	(114,628)
Segment assets	217,393	113,985	10,694		342,072
Segment liabilities	375,153	216,771	12,002		603,926
Investments in associates	284				284
Goodwill	14,367	3,603	3,408		21,378
Capital expenditures	4,971	520	486		5,977
Income tax (expense) benefit	(5,630)	(2,795)	103		(8,322)

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Table of Contents**MECHEL PAO****Notes to the consolidated financial statements for the year ended December 31, 2015***(All amounts are in millions of Russian rubles, unless stated otherwise)*

Year ended December 31, 2014	Mining	Steel	Energy	Adjustments and eliminations	Consolidated
Revenues from external customers	79,509	138,660	25,823		243,992
Inter-segment revenues	21,049	8,207	13,731	(42,987)	
Gross profit	49,123	31,382	10,339	91	90,935
Gross margin, %	48.9	21.4	26.1		37.3
Depreciation, depletion and amortization	8,747	5,391	291		14,429
Loss on write-off of property, plant and equipment	309	242	110		661
Impairment of goodwill and non-current assets	(19)	8,015			7,996
Operating profit (loss)	1,718	(1,346)	424	91	887
Income (loss) from associates	14	(7)			7
Finance income	74	32	1		107
Intersegment finance income	704	358	46		1,108
Finance cost	(14,852)	(12,296)	(962)		(28,110)
Intersegment finance cost	(183)	(679)	(246)		(1,108)
Profit (loss) after tax for the year from discontinued operations, net	(13,141)	1,468	(29)		(11,702)
Loss for the year	(87,758)	(45,765)	(535)	91	(133,967)
Segment assets	239,501	117,581	12,176		369,258
Assets of disposal group classified as held for sale	8,696				8,696
Segment liabilities	312,417	187,776	15,478		515,671
Investments in associates	274				274
Goodwill	14,367	3,477	4,853		22,697
Capital expenditures	13,117	3,089	300		16,506
Income tax benefit	8,435	374	13		8,822

Balances as of January 1, 2014	Mining	Steel	Energy	Consolidated
Segment assets	237,333	143,518	12,243	393,094
Segment liabilities	217,361	176,157	13,064	406,582
Investments in associates	244	7		251
Goodwill	14,367	3,300	4,853	22,520

The following table presents the Group's revenues segregated between domestic and export sales. Domestic represents sales by a subsidiary in the country in which it is located. This category is further divided between subsidiaries located in Russia and other countries. Export represents cross-border sales by a subsidiary regardless of its location.

	2015	2014
Domestic:		
Russia	146,701	141,096
Other	20,817	19,488
Total	167,518	160,584
Export	85,623	83,408
Total revenue	253,141	243,992

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Allocation of total revenue by country is based on the location of the customer. The Group's total revenues from external customers by geographic area for the last two fiscal years were as follows:

	2015	2014
Russia	146,754	141,179
Asia	40,119	41,177
Europe	39,019	34,233
CIS	20,231	21,837
Middle East	4,222	3,596
USA	581	531
Other regions	2,215	1,439
Total	253,141	243,992

The majority of the Group's non-current assets are located in Russia. The carrying amounts of property, plant and equipment pertaining to the Group's major operations were as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Russia	250,868	261,269	262,422
Germany	2,051	1,851	1,549
Austria	780	705	832
Czech Republic	285	239	187
Romania	266	241	343
CIS	25	21	1,665
Switzerland/Liechtenstein	9	8	6
USA			10,701
Other	77	87	275
Total	254,361	264,421	277,980

Because of the significant number of customers, there are no individual external customers that generate sales greater than 10% of the Group's consolidated total revenue.

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The following table presents the breakdown the Group's revenues from external customers by major products:

	2015	2014
Mining segment		
Coal and middlings	64,186	62,385
Coke and chemical products	11,756	10,849
Iron ore concentrate	1,844	4,011
Other	2,846	2,264
Total	80,632	79,509
Steel segment		
Long steel products	73,853	71,064
Hardware	23,443	22,396
Flat steel products	17,490	14,646
Forgings and stampings	12,166	11,843
Semi-finished steel products	5,027	2,834
Ferrosilicon	3,528	2,713
Steel pipes	3,308	3,391
Other	7,217	9,773
Total	146,032	138,660
Power segment		
Electricity	24,524	23,628
Other	1,953	2,195
Total	26,477	25,823
Total revenue	253,141	243,992

29. Commitments and contingencies*Commitments*

In the course of carrying out its operations and other activities, the Group and its subsidiaries enter into various agreements, which would require the Group to invest in or provide financing to specific projects or undertakings. In

management's opinion, these commitments are entered into under standard terms, which are representative of each specific project's potential and should not result in an unreasonable loss.

As of December 31, 2015, the total Group's contractual commitments to acquire property, plant and equipment amounted to RUB 23,231 million. Included in the commitments related to acquisition of property, plant and equipment are amounts arising from various purchase agreements in respect of railway and related infrastructure facilities construction for the Elga project. The total amount of remaining commitments under the construction contracts as of December 31, 2015 is equal to RUB 19,890 million.

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Operating lease commitments

The Group has entered into operating property and land leases with lease terms between 2015 and 2065 years. Property and land lease expenses amounted to RUB 1,792 million and RUB 1,628 million for the years ended December 31, 2015 and 2014, respectively. Future minimum rentals payable under non-cancellable operating leases as of December 31, 2015 are, as follows:

	December 31, 2015
Within one year	1,798
After one year but not more than five years	6,943
More than five years	50,466
Total rental payable	59,207

The Group does not sublease the property leased under operating lease agreements.

Finance lease commitments

The Group has finance leases for various items of plant and machinery. The Group's obligations under finance leases are not secured. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Minimum payments			Present value of payments		
	December 31, 2015	December 31, 2014	January 1, 2014	December 31, 2015	December 31, 2014	January 1, 2014
Payable in 1 year	17,004	20,317	14,480	13,507	15,213	10,809
Payable in 2 years	360	107	2,217	304	98	1,925
Payable in 3 years	169	37	864	157	33	770
Payable in 4 years	20	15	253	19	15	224
Payable in 5 years and thereafter	1		57	1		54
Total minimum lease payment	17,553	20,476	17,871	13,988	15,359	13,782
Less amounts representing finance charges	(3,565)	(5,117)	(4,089)			

Present value of finance lease liabilities	13,988	15,359	13,782	13,988	15,359	13,782
Current portion of finance lease liabilities				13,507	15,213	10,809
Non-current portion of finance lease liabilities				481	146	2,973

The discount rate used for the calculation of the present value of minimum lease payments equals the implicit rate for the lessor and varies on different groups of equipment from 10.4% p.a. to 13.2% p.a. (U.S. dollar-denominated contracts), from 7.6% p.a. to 22.9% p.a. (Euro-denominated contracts) and from 5.3% p.a. to 26.1% p.a. (Russian ruble-denominated contracts). Interest expense charged to the statements of profit (loss) in 2015 and 2014 amounted to RUB 1,673 million and RUB 2,002 million, respectively.

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The Group's finance lease contracts contain a number of covenants and restrictions, which include, but are not limited to, compliance with payment schedule and certain cross-default provisions. As of December 31, 2015, the Group was not in compliance with all major Group's restrictive covenants. There was also a breach of restrictive covenants on overdue principal amount of RUB 3,523 million as of December 31, 2015. As a result, the long-term finance lease liability of RUB 7,748 million was reclassified to short-term finance lease liabilities due to covenant violations as of December 31, 2015.

The total amount of commitments under the signed lease contracts as of December 31, 2015 is equal to RUB nil.

Contingencies

Legal claim contingency

The Group's business activities expose it to a variety of lawsuits and claims which are monitored, assessed and contested on the ongoing basis. Where management believes that a lawsuit or another claim would result in the outflow of the economic benefits for the Group, a best estimate of such outflow is included in provisions in the consolidated financial statements (Note 23).

As of December 31, 2015, the management assesses the outflow as possible for the claims of Minmetals Engineering Co.Ltd and an individual to the Group. Minmetals Engineering Co.Ltd sued CMP for work performed of \$46,000 thousand (RUB 3,383 million at exchange rate as of December 31, 2015), compensation of expenses due to change of technical task of \$87,000 thousand (RUB 6,348 million at exchange rate as of December 31, 2015), compensation due to increased volume of work of RUB 299 million, payment for the temporary workshop of \$2,200 thousand (RUB 160 million at exchange rate as of December 31, 2015) and compensation for lost property of \$1,000 thousand (RUB 73 million at exchange rate as of December 31, 2015). CMP issued a claim to Minmetals Engineering Co.Ltd in the amount of \$56,000 thousand (RUB 4,099 million at exchange rate as of December 31, 2015). The individual sued to the court in order to oblige PAO Mechel to execute the sale agreement for 1,999 shares of DAVEZE LIMITED and to recognize the rights of plaintiff for these shares. The amount of an outflow of resources embodying economic benefits for this claim cannot be measured reliably.

Guarantees

As of December 31, 2015, the Group guaranteed the fulfillment of obligations to third parties for the total amount of RUB 56 million. These guarantees are given by the Group under promissory notes, which were transferred by endorsement.

Environmental

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and

regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management does not believe that any pending environmental claims or proceedings will have a material adverse effect on its financial position and results of operations.

The Group estimated the total amount of capital investments to address environmental concerns at its various subsidiaries at RUB 644 million as of December 31, 2015. These amounts are not accrued in the consolidated financial statements until actual capital investments are made.

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MECHEL PAO

Notes to the consolidated financial statements for the year ended December 31, 2015

(All amounts are in millions of Russian rubles, unless stated otherwise)

Possible liabilities, which were identified by management as those that can be subject to potential claims from environmental authorities are not accrued in the consolidated financial statements. The amount of such liabilities was not significant.

Taxation

The Group is subject to taxation to the largest extent in Russia, and secondarily in other jurisdictions. The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that tax authorities are taking more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of the taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

In Russia, generally tax declarations remain open and subject to inspection for a period of three years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

In other tax jurisdictions where the Group conducts operations or holds shares, taxes are generally charged on the income arising in that jurisdiction. In some jurisdictions agreements to avoid double taxation are signed between different jurisdictions; however, the risk of additional taxation exists, especially in respect of certain domiciles where some of the Group entities are located and which are considered to be tax havens.

The Russian transfer pricing legislation, which came into force on January 1 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all controlled transactions if the transaction price differs from the market level of prices. The list of controlled transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUB 2,000 million in 2013 and RUB 1,000 million since 2014. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognised in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the controlled transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the controlled transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources

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(All amounts are in millions of Russian rubles, unless stated otherwise)

embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Asser, the Group accrued RUB 480 million, RUB 620 million and RUB 548 million of other tax claims that management believes are probable, as of December 31, 2015, 2014 and January 1, 2014, respectively. In addition, income tax accrual was made under IAS 12 Income Taxes (Note 21).

As of December 31, 2015, the Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be materially misstated or misleading.

Possible liabilities, which were identified by management as those that can be subject to different interpretations of the tax law and regulations are not accrued in the consolidated financial statements. The amount of such liabilities was RUB nil, RUB 2,010 million and RUB 1,080 million as of December 31, 2015, 2014 and January 1, 2014, respectively.

30. Events after the reporting period

The Group evaluated subsequent events for these consolidated financial statements through the date when the financial statements were issued, May 13, 2016.

Option for acquisition of a stake in the Elga coal complex

On April 1, 2016, the Group signed option agreements with Gazprombank providing the bank with the option to acquire a 49% stake in the Elga coal complex for a total consideration of RUB 34,300 million. According to these agreements, the Group is obliged to sell to Gazprombank upon its request and not later than June 30, 2016, a 49% stake in Elgaugol OOO, the owner of the subsoil license for the Elga coal deposit, a 49% stake in Elga-doroga OOO, the owner of the Ulak-Elga rail line which had been contributed to the registered capital of this newly established company in March 2016, a 49% stake in Mecheltrans Vostok OOO, the rail line s transport operator (collectively, the target companies).

Proceeds from the sale of these stakes will be used for repayment of debt of SKCC assigned from Sberbank to Gazprombank (or their respective assignees) in the amount of RUB 31,500 million (\$423,091 thousand or RUB 28,400 million at exchange rate as of April 12, 2016 and RUB 3,100 million), and remaining amount for repayment to Sberbank and / or Sberbank Leasing.

The agreements also include joint coordination of management over the Elga coal complex. Gazprombank will have a put option to sell its stakes (in full or in part) in the Elga coal complex within three years following a five-year period or in case of a breach of conditions stipulated by such agreement. Put options are signed by Yakutugol and Mechel-Trans OOO (sellers of the stakes in target companies) and will be guaranteed by Mechel Mining OAO, SKCC and Mechel Coke. If the Group fails to perform under these put options Gazprombank will have the right to buy out

(call option) the remaining stakes owned by the Group in the target companies and a 100% stake in Mechel Port Vanino. A 1.99% stake in each of the target companies will be pledged in favor of Gazprombank as a security for the call option.

As of the date hereof Gazprombank has not requested the execution of the sale-purchase agreement under the option agreements and the stakes of the target companies have not been transferred to the bank.

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Following the assignment of the Group's debt from Sberbank to Gazprombank in April 2016, the Group signed settlement agreements with the latter to convert the \$423,091 thousand debt into RUB 28,400 million debt and to extend the maturities of such loans till June 30, 2016.

Restructuring agreements with Sberbank

The Group signed amendment agreements and amicable settlement agreements with Sberbank for the existing debts restructuring of CMP of RUB 27,430 million, Izhstal of RUB 564 million, BFP of RUB 650 million, Yakutugol of RUB 48 million, Korshunov Mining Plant (KMP) of RUB 35 million, Mechel Trading of \$100,000 thousand (RUB 7,288 million at exchange rate as of December 31, 2015), and SKCC of \$254,890 thousand (RUB 18,577 million at exchange rate as of December 31, 2015) during February-April 2016. Restructuring of CMP debt of RUB 6,761 million is agreed and subject to the court approval of the amicable settlement agreements. Amendment agreements and amicable settlement agreements grant a grace period until April 2017 and extend the final maturity until April 2020, waive all previous defaults (including but not limited to acceleration of repayments), provide new interest rates and partial capitalization of interest, as well as new levels of financial covenants. The grace period will be extended until January 2020 and the final maturity until April 2022, if similar terms for the grace period and interest rate are reached with VTB and other conditions have been fulfilled. Upon restructuring, overdue interest in the amount of RUB 3,600 million are capitalized and fines and penalties in the amount of RUB 1,059 million are waived. The amendment agreements became effective upon signing; however, failure to comply with certain terms will lead to their termination.

In December 2015 and the beginning of 2016, the Group signed settlement agreements with Sberbank Leasing AO which waived previous defaults and restructured future payment schedules. The settlement agreements will become effective upon approval by the court which is ongoing.

Restructuring agreements with Gazprombank

In January 2016, part of Gazprombank debt, in particular \$400,000 thousand (RUB 29,153 million at exchange rate as of December 31, 2015) and \$200,000 thousand (RUB 14,576 million at exchange rate as of December 31, 2015) credit facilities for SKCC and \$385,777 thousand (RUB 28,059 million at exchange rate as of December 31, 2015) and \$300,000 thousand (RUB 21,856 million at exchange rate as of December 31, 2015) credit facilities for Yakutugol were converted into rubles. In March 2016, Yakutugol's loan from Gazprombank in the amount of \$103,100 thousand (RUB 7,515 million at exchange rate as of December 31, 2015) was also converted into rubles. Restructuring of these credit facilities became effective in January and March 2016 providing for an extension of the grace period until April 2020 and the final maturity until April 2022. Interest rate under restructured agreements is set at the level of the Central Bank of Russia rate plus 1.5% (subject to increase to 3.5% if certain conditions are not met). Waiving of fines and penalties in the amount of RUB 6,026 million is subject to fulfilment of certain conditions. In March 2016, the Elga railway and related infrastructure facilities were pledged to Gazprombank under the credit facilities at the value of RUB 81,772 million as of December 31, 2015.

In March 2016, the restructuring under overdraft facilities of CMP and Mechel Service has become effective.

Other

The Group signed restructuring agreements with Uralsib bank which granted extended repayments of the Group's debt of RUB 3,280 million till December 30, 2019, new tranches of RUB 1,000 million, waived all previous defaults, new interest rates, the grace period for interest repayment till December 31, 2016.