

OAO Mechel

Consolidated Balance Sheets

(in thousands of U.S. dollars, except share amounts)

	September 30, 2014	December 31, 2013*
	<u>(unaudited)</u>	<u>(unaudited)</u>
ASSETS		
Cash and cash equivalents	\$ 72,062	\$ 274,539
Accounts receivable, net of allowance for doubtful accounts of \$70,030 as of September 30, 2014 and \$81,845 as of December 31, 2013	473,469	593,285
Due from related parties, net of allowance of \$1,578,375 as of September 30, 2014 and \$1,623,661 as of December 31, 2013	39,949	56,792
Inventories	868,617	1,413,284
Deferred income taxes	29,094	34,972
Prepayments and other current assets	306,132	442,597
Total current assets	<u>1,789,323</u>	<u>2,815,469</u>
Long-term investments in related parties	7,368	7,604
Other long-term investments	6,517	14,788
Property, plant and equipment, net	5,810,294	6,871,908
Mineral licenses, net	3,017,775	3,271,018
Due from related parties, net of allowance of \$nil as of September 30, 2014 and \$nil as of December 31, 2013	7,300	-
Other non-current assets	154,518	160,894
Deferred income taxes	17,684	5,066
Goodwill	572,761	687,763
Total assets	<u>11,383,540</u>	<u>13,834,510</u>
LIABILITIES AND EQUITY		
Short-term borrowings and current portion of long-term debt	7,618,320	1,484,912
Accounts payable and accrued expenses:		
Trade payable to vendors of goods and services	799,925	945,629
Advances received	109,146	140,919
Accrued expenses and other current liabilities	489,468	362,919
Taxes and social charges payable	373,047	278,294
Unrecognized income tax benefits	40,531	78,333
Due to related parties	36,764	106,943
Asset retirement obligations, current portion	10,097	2,001
Deferred income taxes	30,302	37,775
Pension obligations, current portion	16,088	20,391
Dividends payable	2,633	3,293
Finance lease liabilities, current portion	169,762	122,815
Total current liabilities	<u>9,696,083</u>	<u>3,584,224</u>
Long-term debt, net of current portion	240,871	7,520,217
Asset retirement obligations, net of current portion	44,579	57,135
Pension obligations, net of current portion	142,685	151,945
Deferred income taxes	897,015	1,082,819
Finance lease liabilities, net of current portion	207,934	296,885
Due to related parties	5	21
Other long-term liabilities	375,741	329,444

(in thousands of U.S. dollars, except share amounts)

	September 30, 2014 (unaudited)	December 31, 2013* (unaudited)
EQUITY		
Common shares (10 Russian rubles par value; 497,969,086 shares authorized, 416,270,745 shares issued and outstanding as of September 30, 2014 and December 31, 2013)	133,507	133,507
Preferred shares (10 Russian rubles par value; 138,756,915 shares authorized, 83,254,149 shares issued and outstanding as of September 30, 2014 and December 31, 2013)	25,314	25,314
Additional paid-in capital	834,136	834,118
Accumulated other comprehensive income (loss)	187,231	(47,601)
(Accumulated deficit) retained earnings	(1,650,596)	(427,863)
Equity attributable to shareholders of Mechel OAO	<u>(470,408)</u>	<u>517,475</u>
Noncontrolling interests	249,035	294,345
Total equity	<u>(221,373)</u>	<u>811,820</u>
Total liabilities and equity	<u><u>11,383,540</u></u>	<u><u>13,834,510</u></u>

*there were certain reclassifications to conform with the current period presentation

**Consolidated Statements of Operations and Comprehensive Income
(Loss)**

(in thousands of U.S. dollars)

	9 months ended September 30,	
	2014	2013*
	(unaudited)	(unaudited)
Revenue, net (including related party amounts of \$87,270 and \$126,031 during 9 months 2014 and 2013, respectively)	\$ 5,032,121	\$ 6,718,108
Cost of goods sold (including related party amounts of \$91,026 and \$509,377 during 9 months 2014 and 2013, respectively)	(3,272,309)	(4,669,898)
Gross profit	1,759,812	2,048,210
<u>Selling, distribution and operating expenses:</u>		
Selling and distribution expenses	(1,136,949)	(1,312,079)
Taxes other than income tax	(138,248)	(90,386)
Accretion expense	(4,336)	(3,764)
Loss on write-off of property, plant and equipment	(7,713)	(5,270)
Impairment of goodwill and long-lived assets	-	(177,416)
Provision for amounts due from related parties	(15,598)	(629,392)
Provision for doubtful accounts	(28,756)	(16,855)
General, administrative and other operating expenses, net	(349,094)	(408,765)
Total selling, distribution and operating expenses, net	(1,680,694)	(2,643,927)
Operating income (loss)	79,118	(595,717)
<u>Other income and (expense):</u>		
Income from equity investments	67	3,683
Interest income	2,717	6,993
Interest expense	(573,451)	(547,740)
Foreign exchange loss	(734,724)	(150,938)
Other income (expense), net	13,517	(109,166)
Total other income and (expense), net	(1,291,874)	(797,168)
Loss from continuing operations, before income tax	(1,212,756)	(1,392,885)
Income tax (expense) benefit	(13,854)	59,587
Net loss from continuing operations	(1,226,610)	(1,333,298)
Income (loss) from discontinued operations, net of income tax	8,005	(910,337)
Net loss	(1,218,605)	(2,243,635)
Less: Net (income) loss attributable to noncontrolling interests	(4,003)	(2,930)
Net loss attributable to shareholders of Mechel OAO	(1,222,608)	(2,246,565)
Less: Dividends on preferred shares	(124)	(127)
Net loss attributable to common shareholders of Mechel OAO	(1,222,732)	(2,246,692)
Net loss	(1,218,605)	(2,243,635)
Currency translation adjustment	191,524	(95,790)
Transfer of currency translation adjustment due to disposal of subsidiaries	-	68,951
Change in pension benefit obligation	(6,328)	(2,659)
Adjustment of available-for-sale securities	307	(836)
Comprehensive loss	(1,033,102)	(2,273,969)
Comprehensive loss attributable to noncontrolling interests	45,325	23,628
Comprehensive loss attributable to shareholders of Mechel OAO	(987,777)	(2,250,341)

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Consolidated Statements of Cash Flows*(in thousands of U.S. dollars)*

	9 months ended September 30,	
	2014	2013*
	(unaudited)	(unaudited)
Cash Flows from Operating Activities		
Net loss	\$ (1,218,605)	\$ (2,243,635)
Plus: (Income) loss from discontinued operations, net of income tax	(8,005)	910,337
<u>Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:</u>		
Depreciation	287,216	320,452
Depletion and amortization	39,281	64,999
Foreign exchange loss	734,724	150,938
Deferred income taxes	(117,367)	(144,780)
Provision for doubtful accounts	28,756	16,853
Change in inventory reserves	88	(4,971)
Accretion expense	4,336	3,764
Loss on write-off of property, plant and equipment	7,713	5,270
Impairment of goodwill and long-lived assets	-	177,416
Income from equity investments	(67)	(3,683)
Provision for amounts due from related parties	15,598	629,392
Non-cash interest on pension liabilities	7,174	8,148
Loss (gain) on sale of property, plant and equipment	2,254	(243)
Gain on sale of investments	(14,811)	-
Gain on accounts payable with expired legal term	(616)	(749)
Loss on disposal of subsidiaries	-	92,335
Amortization of loan origination fee	43,712	42,328
Loss resulting from accretion and remeasurement of contingent liability	1,642	1,521
Pension service cost, amortization of prior service cost and actuarial (gain) loss, other expenses	4,239	4,796
<u>Changes in working capital items, net of effects from acquisition of new subsidiaries:</u>		
Accounts receivable	22,718	(22,397)
Inventories	367,017	412,421
Trade payable to vendors of goods and services	57,881	38,787
Advances received	(264)	(35,797)
Accrued taxes and other liabilities	458,204	116,769
Settlements with related parties	(41,647)	(373,543)
Other current assets	38,565	62,400
Unrecognized income tax benefits	(28,387)	32,787
Net operating cash flows of discontinued operations	7,897	50,624
Net cash provided by operating activities	<u>699,246</u>	<u>312,539</u>
Cash Flows from Investing Activities		
Acquisition of DEMP, less cash acquired	(64,476)	(43,548)
Acquisition of Port Vanino	-	(518,823)
Disposal of Port Vanino	-	500,058
Proceeds from disposal of securities	15,599	-
Short-term loans issued and other investments	(2)	(1,087)
Proceeds from disposal of TPP Rouse, less cash disposed of	1,454	26,684
Proceed from disposal of other subsidiaries disposed of, less cash disposed of	690	1,236
Proceeds from short-term loans issued	1,334	6,465
Proceeds from disposals of property, plant and equipment	28,010	4,685
Purchases of mineral licenses and other related payments	-	(886)
Purchases of property, plant and equipment	(421,232)	(444,275)

(in thousands of U.S. dollars)

	9 months ended September 30,	
	2014	2013*
	(unaudited)	(unaudited)
Net investing cash flows of discontinued operations	2,304	(16,296)
Net cash used in investing activities	<u>(436,319)</u>	<u>(485,787)</u>
Cash Flows from Financing Activities		
Proceeds from borrowings	2,061,294	2,555,319
Repayment of borrowings	(2,420,314)	(2,464,851)
Dividends paid	(122)	(320)
Dividends paid to noncontrolling interest	(147)	(1,569)
Acquisition of noncontrolling interest in subsidiaries	(40,043)	(33)
Repayment of obligations under finance lease	(33,047)	(109,026)
Sale leaseback proceeds	15,273	40,023
Net financing cash flows of discontinued operations	-	(18,533)
Net cash (used in) provided by financing activities	<u>(417,106)</u>	<u>1,010</u>
Effect of exchange rate changes on cash and cash equivalents	(48,299)	(17,751)
Net decrease in cash and cash equivalents	<u>(202,478)</u>	<u>(189,989)</u>
Cash and cash equivalents at beginning of period	274,539	297,993
Cash and cash equivalents at end of period	<u><u>72,062</u></u>	<u><u>108,004</u></u>

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