



MECHEL REPORTS FIRST QUARTER 2005 RESULTS

-- Revenues increase 60.1% to \$1.05 billion --

-- Operating income rises 180.8% to \$226.8 million --

-- Net income increases 219.6% to \$169.5 million, \$1.26 per ADR or \$0.42 per diluted share --

Moscow, Russia - August 18, 2005 - Mechel OAO (NYSE: MTL), a leading Russian integrated mining and steel group, today announced results for the first quarter ended March 31, 2005.

| US\$ thousand | 1Q 2005 | 1Q 2004 | Change Y-on-Y |
|-----------------------------|--------------------|--------------------|--------------------------|
| Revenues | 1,049,383 | 655,340 | 60.1% |
| Net operating income | 226,773 | 80,763 | 180.8% |
| <i>Net operating margin</i> | <i>21.61%</i> | <i>12.32%</i> | - |
| Net income | 169,512 | 53,033 | 219.6% |
| EBITDA (1) | 279,654 | 115,256 | 142.6% |
| <i>EBITDA margin</i> | <i>26.65%</i> | <i>17.59%</i> | - |

(1) See Attachment A.

Vladimir Iorich, Mechel's Chief Executive Officer, commented:

“First quarter 2005 was a very successful period for Mechel, one in which we saw continued strong operational and financial performance, particularly from our mining segment as raw material prices remained at peak levels. The demand for our mining and steel products, as well as average realized prices and selling volumes, remained high throughout most of the first quarter both domestically and internationally, yielding solid results. However, towards the end of the quarter we began to see increasingly difficult market conditions for our products, a situation we expect to experience for the remainder of this year. Although I believe that Mechel is well-positioned for the future given its status as one of the world's most integrated mining and steel companies, the current slowdown in the market will almost certainly make the first quarter the best quarter of 2005 for us.”

Consolidated Results

Net revenue in the first quarter of 2005 rose 60.1% to \$1.05 billion from \$655.3 million in the first quarter of 2004. Driven by high product pricing and steps Mechel has taken to reduce operating costs, gross margin rose 103.1% to \$449.9 million, or 42.9% of net revenue, compared to \$221.5 million, or 33.8% of net revenue for the first quarter of 2004. Operating income was \$226.8 million, or 21.6% of net revenue, versus operating income of \$80.8 million, or 12.3% of net revenue, in the first quarter of 2004, an increase of 180.8%.

For the first quarter of 2005, Mechel reported consolidated net income of \$169.5 million, or \$1.26 per ADR (\$0.42 per diluted share), a 219.6% increase compared with net income of \$53.0 million, or \$0.43 per ADR (\$0.14 per diluted share), for the first quarter of 2004.

Consolidated EBITDA rose 142.7% to \$279.7 million in the first quarter of 2005 from \$115.2 million a year ago. Please see the attached tables for a reconciliation of consolidated EBITDA to net income.

Mining Segment Results

| US\$ thousand | 1Q 2005 | 1Q 2004 | Change Y-on-Y |
|----------------------------------|--------------------|--------------------|--------------------------|
| Revenues from external customers | 313,636 | 140,673 | 123.0% |
| Operating income | 184,157 | 22,590 | 715.2% |
| Net income | 146,262 | 8,314 | 1,659.2% |
| EBITDA | 185,959 | 33,320 | 458.1% |
| <i>EBITDA margin</i> | 59.30% | 23.69% | - |

Mining segment output

| Product | 1Q 2005, thousand tonnes | 1Q 2005 vs Q1 2004, % |
|----------------------|---------------------------------|------------------------------|
| Coal | 4,084 | + 12.8 |
| Coking coal | 2,337 | + 12.3 |
| Steam coal | 1,747 | + 13.4 |
| Iron ore concentrate | 1,041 | + 14.3 |
| Nickel | 2.4 | - 16.8 |

Mining segment revenue for the first quarter of 2005 totaled \$313.6 million, or 29.9%, of consolidated net revenue, an increase of 123.0% over segment revenue of \$140.6 million, or 21.5%, of consolidated net revenue, in the first quarter of 2004. The increase in revenues reflects growth in output, strong market positions, and an increase in sales of mining products to third parties.

Operating income for the first quarter of 2005 in the mining segment rose 715.2% to \$184.2 million, or 58.7%, of total segment revenues, compared to operating income of \$22.6 million, or 16.6%, of total segment revenues a year ago. This increase in profitability reflects Mechel's tight control over costs and overall efficiency of mining operations. EBITDA in the mining segment for the first quarter of 2005 was \$186.0 million, 458.1% higher than segment EBITDA of \$33.4 million in the first quarter of 2004. The EBITDA margin of the mining segment also increased to 59.3% from 23.7%.

Mr. Iorich commented on the results of the mining segment: "During the first quarter we still saw a good pricing environment for our mining products. With high-quality products and a broad customer base, Mechel was able to leverage market conditions into strong operating performance within this segment, more than doubling the EBITDA margin. In addition, during the first quarter of 2005 and further into the year, we continued to execute our strategy to further expand our mining operations, acquiring a 25%+1 stake in Yakutugol, thus gaining access to a new

promising region with substantial coal and iron ore reserves. Our primary area of difficulty in the mining segment, our nickel operations, were an issue of a particular focus for us, as the existing coke-based technology and significant work to upgrade equipment resulted in a decline in profitability and output. We view technological upgrade of this facility and reduction of its dependence on coke so as to lower production costs as the key to its profitable operation.”

Steel Segment Results

| US\$ thousand | 1Q 2005 | 1Q 2004 | Change Y-on-Y |
|----------------------------------|--------------------|--------------------|--------------------------|
| Revenues from external customers | 735,747 | 514,667 | 43.0% |
| Operating income | 42,616 | 58,172 | -26.7% |
| Net income | 23,250 | 44,719 | -52.0% |
| EBITDA (1) | 93,695 | 81,936 | 14.3% |
| <i>EBITDA margin (1)</i> | 12.73% | 15.92% | - |

Steel segment output

| Product | 1Q 2005, thousand tonnes | 1Q 2005 vs 1Q 2004, % |
|-----------------|---------------------------------|------------------------------|
| Coke | 718 | - 1.2 |
| Pig iron | 994 | + 17.4 |
| Steel | 1,615 | + 14.0 |
| Rolled products | 1,331 | + 19.7 |
| Hardware | 145.2 | + 10.5 |

Revenue from Mechel’s steel segment increased 43.0% in the first quarter of 2005 from \$514.7 million to \$735.7 million, or 70.11%, of consolidated net revenue, as compared to the first quarter of 2004. This revenue growth was driven by increasing output and demand.

In the first quarter of 2005, the steel segment generated operating income of \$42.6 million, or 5.8%, of total segment revenues, a decrease of 26.7% over operating income of \$58.1 million, or 11.3%, of total segment revenues in the first quarter of 2004. EBITDA in the steel segment for the first quarter of 2005 was \$93.7 million, an increase over steel segment EBITDA of \$81.9 million in the first quarter of 2004. EBITDA margin of the steel segment decreased from 15.9% to 12.7%. This primarily resulted from increasing raw material prices and changing environment for steel products.

Mr. Iorich commented, “In a declining pricing environment we saw a decrease in EBITDA margin and operating income of the segment as increasing raw material costs shifted profitability in the group from the steel to the mining segment. Throughout 2005 we have been concentrating our efforts on efficiency improvement and controlling costs. Recently, for example, we made a test run of the second line of the new sinter plant at Chelyabinsk Metallurgical Plant, which will further improve usage ratios and cost-efficiency. However, we expect that this shift in profitability will continue to be the case through the remainder of this year.”

Recent Highlights

In 2005 Mechel has taken a number of actions to continue the successful execution of its operating strategy and enhance its position in the Russian mining and steel and markets. Some of these actions include:

- A number of transactions that have significantly expanded the capabilities of Mechel's coal segment. These include various successes at license auctions to develop coal deposits in the Olzherasskaya Mine plot, Razvedochny plot, Sorokinsky plot, Erunakovskaya-1 Mine and Erunakovskaya-3 Mine plots. These transactions have increased Mechel's total reserves by 1.15 billion tonnes, according to Russian reserve valuation standards, of which the vast majority is coking coal reserves of high quality.
- Mechel also won an auction for the sale of ordinary shares in Yakutugol OAO that constitute 25 % + 1 share of the company's charter capital for approximately \$411.2 million. Yakutugol's annual output is approximately 9 million tonnes, of which approximately 5.4 million tonnes is coking coal. The acquisition further expands Mechel's mining holdings while also increasing its exposure to the Asia-Pacific region.
- Continued progress on Mechel's commitment to investing in its operations to reduce operating costs and increase efficiency. In April, Mechel announced the start-up of the first line of a new, four-line sinter plant at its Chelyabinsk Metallurgical Plant subsidiary. The new plant will increase Mechel's ability to internally source its iron ore requirements from its iron ore mine, Korshunov Mining Plant. Once fully operational, the plant, which will cost approximately \$154 million, will generate approximately \$70 million in annual cost savings.
- To diversify the cargo flow of our coal and steel products and to improve our logistics, Mechel acquired 90.36% stake in Kambarka Port OAO - one of Russia's largest river ports. The facility specializes in the transshipment of bulk cargo, including ore, iron ore concentrate and coal.

Mr. Iorich concluded, "Overall, the first quarter of 2005 was one of our most successful periods ever. We were able to utilize favorable market conditions and diligently execute our operating strategy. However, starting from March, we have been seeing decreasing price trends for our products, and we intend to remain focused on controlling costs and enhancing operational efficiencies across both segments, and believe that our position as an integrated producer, our diversity of products and markets, will allow us to flexibly react to the changing environment, positioning us well for the future. "

Financial Position

First quarter cash expenditure on property, plant and equipment amounted to \$133.45 million, of which \$92.9 million was invested in the steel segment and \$40.6 million in the mining segment.

In 2005 Mechel has spent \$463 million on acquisitions, comprised of \$411.2 million for 25%+1 of the shares of Yakutugol Holding Company OAO, \$3.5 million for 90.3% of the shares of Port Kambarka OAO, \$15.7 million for 24.96% of the shares of Izhstal OAO, \$32.3 million for 5.62% of the shares of Chelyabinsk Metallurgical Plant OAO and \$0.3 million for 4.5% of the shares of Korshunov Mining Plant.

As of March 31, 2005, total debt¹ was at \$534.3 million. Cash and cash equivalents amounted to \$634.7 million at the end of the first quarter of 2005 and net debt amounted to \$(100.4) million (Net debt is defined as total debt outstanding less cash and cash equivalents)

The management of Mechel will host a conference call today at 10 a.m. New York time (3 p.m. London time, 6 p.m. Moscow time) to review Mechel's financial results and comment on current operations. The call may be accessed via the Internet at <http://www.mechel.com>, under the Investor Relations section.

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Mechel is one of the leading Russian mining and metals companies. Mechel unites producers of coal, iron ore, nickel, steel, rolled products, and hardware. Mechel products are marketed domestically and internationally.

Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Mechel, 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. We do not intend to update these statements. We refer you to the documents Mechel files from time to time with the U.S. Securities and Exchange Commission, including our Form 20-F. These documents contain and identify important factors, including those contained in the section captioned "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" in our Form 20-F, that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the achievement of anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the impact of competitive pricing, the ability to obtain necessary regulatory approvals and licenses, the impact of developments in the Russian economic, political and legal environment, volatility in stock markets or in the price of our shares or ADRs, financial risk management and the impact of general business and global economic conditions.

¹Total debt is comprised of short-term borrowings and long-term debt

Attachments to the 1Q 2005 Earnings Press Release

Attachment A

Non-GAAP financial measures. This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Earnings Before Interest, Depreciation and Amortization (EBITDA) and EBITDA margin. EBITDA represents earnings before interest, depreciation and amortization. EBITDA margin is defined as EBITDA as a percentage of our net revenues. Our EBITDA may not be similar to EBITDA measures of other companies; is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions and other investments and our ability to incur and service debt. While interest, depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the metals and mining industry. EBITDA can be reconciled to our consolidated statements of operations as follows:

| US\$ thousands | 1Q 2005 | 1Q 2004 |
|--|---------|---------|
| Net income | 169,512 | 53,033 |
| Add: | | |
| Depreciation, depletion and amortization | 40,727 | 29,895 |
| Interest expense | 16,433 | 14,876 |
| Income taxes | 52,982 | 17,452 |
| Consolidated EBITDA | 279,654 | 115,256 |

EBITDA margin can be reconciled as a percentage to our Revenues as follows:

| US\$ thousands | 1Q 2005 | 1Q 2004 |
|----------------|-----------|---------|
| Revenue, net | 1,049,383 | 655,340 |
| EBITDA | 279,654 | 115,256 |
| EBITDA margin | 26.65% | 17.59% |

MECHEL OAO
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2005 AND DECEMBER 31, 2004

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

| | March 31, 2005 | December 31, 2004 |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 634 668 | \$ 1 024 761 |
| Accounts receivable, net of allowance for doubtful accounts of \$19,616 as at 31/03/2005, and \$20,850 as at 31/12/2004 | 217 233 | 135 597 |
| Due from related parties | 11 304 | 16 458 |
| Inventories | 634 248 | 568 545 |
| Deferred cost of inventory in transit | - | - |
| Current assets of discontinued operations | 1 060 | 1 247 |
| Deferred income taxes | 9 757 | 7 491 |
| Prepayments and other current assets | 386 502 | 349 107 |
| Total current assets | <u>1 894 772</u> | <u>2 103 206</u> |
| Long-term investments in related parties | 428 772 | 9 270 |
| Other long-term investments | 10 852 | 66 663 |
| Due from related parties | - | - |
| Non-current assets of discontinued operations | 162 | 165 |
| Intangible assets | 5 854 | 6 379 |
| Property, plant and equipment, net | 1 365 384 | 1 274 722 |
| Mineral reserves, net | 164 846 | 166 483 |
| Deferred income taxes | 11 942 | 11 940 |
| Goodwill | 39 441 | 39 441 |
| Total assets | <u>\$ 3 922 025</u> | <u>\$ 3 678 269</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Short-term borrowings and current maturities of long-term debt | \$ 316 410 | \$ 348 880 |
| Accounts payable and accrued expenses: | | |
| Advances received | 148 538 | 94 964 |
| Accrued expenses and other current liabilities | 78 457 | 70 607 |
| Taxes and social charges payable | 189 270 | 145 527 |
| Trade payable to vendors of goods and services | 225 609 | 186 233 |
| Due to related parties | 1 333 | 2 050 |
| Current liabilities of discontinued operations | 127 | 30 |
| Deferred income taxes | 27 602 | 26 521 |
| Asset retirement obligation | 8 104 | 8 219 |
| Deferred revenue | | |
| Pension obligations | 6 678 | 6 261 |
| Total current liabilities | <u>1 002 128</u> | <u>889 292</u> |
| Restructured taxes and social charges payable, net of current portion | 68 491 | 87 364 |
| Long-term debt, net of current portion | 217 881 | 216 113 |
| Due to related parties | 0 | 0 |
| Deferred income taxes | 113 379 | 105 330 |
| Pension obligations | 41 267 | 40 720 |
| Asset retirement obligation | 66 559 | 66 758 |
| Other long-term liabilities | 202 | 239 |
| Commitments and contingencies | - | - |
| Minority interests | 190 903 | 214 824 |
| SHAREHOLDERS' EQUITY | | |
| Common shares (10 Russian Rubles par value; 497,969,086 shares authorized, 416,270,745 shares issued and 403,118,680 shares outstanding at March 31, 2005 and December 31, 2004) | 133 507 | 133 507 |
| Treasury shares, at cost (13,152,065 and 16,790,271 common shares at December 31, 2004 and December 31, 2003, respectively) | -4 187 | -4 187 |
| Additional paid-in capital | 304 404 | 304 404 |
| Other comprehensive income | 87 760 | 93 687 |
| Retained earnings | 1 699 731 | 1 530 218 |
| Total shareholders' equity | <u>2 221 215</u> | <u>2 057 629</u> |
| Total liabilities and shareholders' equity | <u>\$ 3 922 025</u> | <u>\$ 3 678 269</u> |

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2005 AND 2004**

| <i>(in thousands of U.S. dollars)</i> | For the three months ended March 31, 2005 | For the three months ended March 31, 2004 |
|---|--|--|
| <u>Cash Flows from Operating Activities</u> | | |
| Net income | 169 512 | \$ 53 033 |
| <u>Adjustments to reconcile net income to net cash provided by operating activities:</u> | | |
| Depreciation | 37 499 | 26 011 |
| Depletion and amortization | 3 228 | 3 884 |
| Foreign exchange (gain) loss | 5 985 | (4 478) |
| Deferred income taxes | 4 293 | (2 657) |
| (Recovery of) provision for doubtful accounts | 11 175 | 1 993 |
| Inventory write-down | 516 | 220 |
| Accretion expense | 496 | 982 |
| Impairment of goodwill | - | - |
| Minority interest | 2 226 | (827) |
| Effect of change in accounting principle | - | - |
| (Income) loss from equity investments | (498) | (1 302) |
| Non-cash interest on long-term tax and pension liabilities | 2 169 | 1 414 |
| Loss (gain) on sale of property, plant and equipment | (587) | 5 301 |
| (Gain) loss on sale of long-term investments | (189) | 2 282 |
| Loss from discontinued operations | 186 | 4 424 |
| Gain on forgiveness of fines and penalties | (14 600) | (5 535) |
| Stock-based compensation expense | - | 1 200 |
| Amortization of capitalized costs on bonds issue | 381 | 384 |
| Pension service cost and amortization of prior year service cost | 547 | - |
| Extraordinary (gain) | - | - |
| Net change before changes in working capital | <u>222 339</u> | <u>86 329</u> |
| <u>Changes in working capital items, net of effects from acquisition of new subsidiaries:</u> | | |
| Accounts receivable | (107 600) | (18 504) |
| Inventories | (64 041) | (11 584) |
| Trade payable to vendors of goods and services | 48 038 | 13 839 |
| Advances received | 53 687 | 57 623 |
| Accrued taxes and other liabilities | 50 736 | (34 242) |
| Settlements with related parties | 4 400 | 5 530 |
| Current assets and liabilities of discontinued operations | 97 | (5 932) |
| Deferred revenue and cost of inventory in transit, net | (716) | 1 426 |
| Other current assets | 10 180 | (12 224) |
| Net cash provided by operating activities | <u>217 120</u> | <u>82 261</u> |
| <u>Cash Flows from Investing Activities</u> | | |
| Acquisition of minority interest in subsidiaries | (31 503) | (4) |
| Investment in Yakutugol | (411 182) | - |
| Acquisition of Port Posiet | - | (29 462) |
| Investments in other non-marketable securities | (1 934) | (1 877) |
| Proceeds from disposal of non-marketable equity securities | 1 141 | 123 |
| Proceeds from disposals of property, plant and equipment | 642 | 3 244 |
| Purchases of property, plant and equipment | (133 450) | (54 513) |
| Net cash provided from (used in) investing activities | <u>(576 286)</u> | <u>(82 489)</u> |
| <u>Cash Flows from Financing Activities</u> | | |
| Proceeds from short-term borrowings | 372 507 | 244 950 |
| Repayment of short-term borrowings | (404 732) | (225 507) |
| Dividends paid | - | (285) |
| Proceeds from long-term debt | 5 589 | 2 097 |
| Repayment of long-term debt | (4 217) | (7 089) |
| Net cash provided by financing activities | <u>(30 853)</u> | <u>14 166</u> |
| Effect of exchange rate changes on cash and cash equivalents | (74) | 269 |
| Net increase (decrease) in cash and cash equivalents | (390 093) | 14 207 |
| Cash and cash equivalents at beginning of quarter | 1 024 761 | 19 279 |
| Cash and cash equivalents at end of quarter | <u>634 668</u> | <u>\$ 33 486</u> |
| <u>Supplementary cash flow information:</u> | | |
| Interest paid, net of capitalized | (9 897) | \$ (9 204) |
| Income taxes paid | (48 059) | \$ (29 840) |

MECHEL OAO
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

| <i>(in thousands of U.S. dollars, except share amounts)</i> | For the three months ended March 31, 2005 | For the three months ended March 31, 2004 |
|--|--|--|
| Revenue, net | \$ 1 049 383 | 655 340 |
| Cost of goods sold | (599 424) | (433 857) |
| Gross margin | 449 959 | 221 483 |
| Gross margin, % | 42,88% | 33,80% |
| Selling, distribution and operating expenses: | | |
| Selling and distribution expenses | (115 250) | (77 686) |
| Taxes other than income tax | (33 335) | (15 232) |
| Goodwill impairment | - | - |
| Accretion expenses | (496) | (982) |
| Provision for doubtful accounts | (11 175) | (1 994) |
| General, administrative and other operating expenses | (62 930) | (44 826) |
| Total selling, distribution and operating expenses | (223 186) | (140 720) |
| Operating income | 226 773 | 80 763 |
| Operating income, % | 21,61% | 12,32% |
| Other income and (expense): | | |
| Income (loss) from equity investees | 498 | 1 302 |
| Interest income | 4 817 | 870 |
| Interest expense | (16 433) | (14 876) |
| Foreign exchange gain/ (loss) | (5 985) | 4 478 |
| Other income, net | 15 236 | 1 545 |
| Total other income and (expense) | (1 867) | (6 681) |
| Income before income tax, minority interest, discontinued operations, extraordinary gain and change in accounting principle | 224 906 | 74 082 |
| Effective tax rate | -23,56% | -23,56% |
| Income tax expense | (52 982) | (17 452) |
| Minority interest in (income) loss of subsidiaries | (2 226) | 827 |
| Income from continuing operations | 169 698 | 57 457 |
| Income (loss) from discontinued operations, net of tax | (186) | (4 424) |
| Extraordinary gain, net of tax | - | - |
| Change in accounting principle, net of tax | - | - |
| Net income | \$ 169 512 | 53 033 |
| Net income, % | 16,15% | 8,09% |
| Other comprehensive income, net of tax | | |
| Currency translation adjustment | 49 116 | 17 466 |
| Adjustment of available for sale securities | (2 219) | 683 |
| Comprehensive income | \$ 216 409 | 71 182 |
| Basic and diluted earnings per share: | | |
| Earnings per share from continuing operations | \$ 0,42 | 0,16 |