CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009, 2008 and 2007

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Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
Mechel OAO

We have audited the accompanying consolidated balance sheets of Mechel OAO, an open joint stock company, and subsidiaries (hereinafter referred to as the "Group") as of December 31, 2009 and 2008, and the related consolidated statements of income and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2009. 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.

As more fully described in Note 3(h) to the consolidated financial statements, the value of property, plant, and equipment pertaining to non-controlling shareholders in the accounting for acquisitions of various subsidiaries before January 1, 2009 has been recorded at appraised values rather than at historical cost as then required by accounting principles generally accepted in the United States.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3(gg) to the consolidated financial statements, effective January 1, 2009, the Group adopted both the Financial Accounting Standards Board's Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements (primarily codified in ASC 810-10, Consolidation – Overall) relating to the presentation and accounting for noncontrolling interests and the Financial Accounting Standards Board's Statement No. 141(R), Business Combinations (primarily codified in ASC 805-10, Business Combinations - Overall) relating to the presentation and accounting for business combinations.

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, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 21, 2010 expressed an adverse opinion thereon.

Ernst & Young LLC

April 21, 2010

MECHEL OAO (formerly Mechel Steel Group OAO)

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

	Notes	December 31, 2009	December 31, 2008
ASSETS			
Cash and cash equivalents	**5**	**$ 414,696**	$ 254,839
Accounts receivable, net of allowance for doubtful accounts of $66,764 in 2009 and $110,613 in 2008	**6**	**348,323**	406,749
Due from related parties	**10**	**105,076**	22,171
Inventories	**7**	**1,035,786**	1,365,109
Deferred income taxes	**21**	**21,812**	22,047
Short-term investments in related parties	**10**	**5,855**	67,907
Prepayments and other current assets	**8**	**551,735**	606,354
Total current assets		**2,483,283**	2,745,176
Long-term investments in related parties	**9**	**86,144**	80,408
Other long-term investments	**9**	**23,563**	472,772
Intangible assets, net	**11**	**10,870**	6,956
Property, plant and equipment, net	**12**	**4,460,505**	4,277,841
Mineral licenses, net	**13**	**5,133,105**	3,430,642
Other non-current assets	**14**	**67,294**	57,844
Deferred income taxes	**21**	**24,173**	27,551
Goodwill	**4(m)**	**894,374**	910,444
Total assets		**$ 13,183,311**	$ 12,009,634
LIABILITIES AND EQUITY			
Short-term borrowings and current portion of long-term debt (including debt $4,233,751 with loan covenant violations as of December 31, 2008)	**15**	**$ 1,923,049**	$ 5,149,415
Accounts payable and accrued expenses:			
Trade payable to vendors of goods and services		**473,903**	688,702
Advances received		**156,126**	125,042
Accrued expenses and other current liabilities		**169,617**	143,587
Taxes and social charges payable		**169,695**	131,241
Unrecognized income tax benefits	**21**	**17,172**	27,176
Due to related parties	**10**	**13,500**	1,588
Asset retirement obligation, current portion	**17**	**5,772**	6,387
Deferred income taxes	**21**	**18,550**	17,785
Deferred revenue		**439**	1,776
Pension obligations, current portion	**18**	**31,717**	28,960
Dividends payable		**4,919**	4,919
Finance lease liabilities, current portion	**19**	**35,965**	14,891
Total current liabilities		**3,020,424**	6,341,469
Long-term debt, net of current portion	**15**	**4,074,458**	219,816
Asset retirement obligations, net of current portion	**17**	**53,923**	65,217
Pension obligations, net of current portion	**18**	**152,272**	158,070
Deferred income taxes	**21**	**1,453,480**	841,214
Finance lease liabilities, net of current portion	**19**	**58,694**	54,161
Commitments and contingencies	**26**		
Other long-term liabilities		**39,371**	8,026
EQUITY			
Common shares (10 Russian rubles par value; 497,969,086 shares authorized, 416,270,745 shares issued and outstanding as of December 31, 2009 and 2008)	**20**	**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 December 31, 2009)	**20**	**25,314**	–
Additional paid-in capital		**874,327**	415,070
Accumulated other comprehensive (loss) income		**(172,400)**	158,937
Retained earnings		**3,188,973**	3,323,298
Equity attributable to shareholders of Mechel OAO		**4,049,721**	4,030,812
Non-controlling interests	**4(n)**	**280,968**	290,849
Total equity		**4,330,689**	4,321,661
Total liabilities and equity		**$ 13,183,311**	$ 12,009,634

See accompanying notes to consolidated financial statements

MECHEL OAO (formerly Mechel Steel Group OAO)

Consolidated Statements of Income and Comprehensive (Loss) Income

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

	Notes	Year ended December 31, 2009	2008	2007
Revenue, net (including related party amounts of $107,104, $68,328 and $110,056 during 2009, 2008 and 2007, respectively)		**$ 5,754,146**	$ 9,950,705	$ 6,683,842
Cost of goods sold (including related party amounts of $123,443, $12,213 and $157,427 during 2009, 2008 and 2007, respectively)		**(3,960,693)**	(5,260,108)	(4,166,864)
Gross profit		**1,793,453**	4,690,597	2,516,978
Selling, distribution and operating expenses:				
Selling and distribution expenses		**(1,062,810)**	(1,348,989)	(621,811)
Taxes other than income tax	**22**	**(105,203)**	(116,590)	(83,994)
Accretion expense	**17**	**(7,398)**	(6,078)	(3,101)
Loss on write-off of property, plant and equipment	**12**	**(20,940)**	(4,323)	–
Recovery of allowance (allowance) for doubtful accounts	**6**	**38,019**	(103,632)	(1,411)
General, administrative and other operating expenses	**23**	**(389,477)**	(554,716)	(409,068)
Total selling, distribution and operating expenses		**(1,547,809)**	(2,134,328)	(1,119,385)
Operating income		**245,644**	2,556,269	1,397,593
Other income and (expense):				
Income from equity investments	**9**	**1,200**	717	8
Interest income		**21,445**	11,614	12,278
Interest expense		**(498,986)**	(324,083)	(98,976)
Other income (expenses), net	**24**	**500,257**	(18,821)	19,844
Foreign exchange (loss) gain		**(174,336)**	(877,428)	54,700
Total other income and (expense), net		**(150,420)**	(1,208,001)	(12,146)
Income from continuing operations, before income tax	**21**	**95,224**	1,348,268	1,385,447
Income tax expense	**21**	**(18,893)**	(118,887)	(356,320)
Income from continuing operation, net of tax		**76,331**	1,229,381	1,029,127
Discontinued operations, net of tax		**–**	–	158
Net income		**76,331**	1,229,381	1,029,285
Less: Net income attributable to non-controlling interests	**4(n)**	**(2,590)**	(88,837)	(116,234)
Net income attributable to shareholders of Mechel OAO		**73,741**	1,140,544	913,051
Less: Dividends on preferred shares		**(134,498)**	**–**	**–**
Net (loss) income attributable to common shareholders of Mechel OAO		**$ (60,757)**	$ 1,140,544	$ 913,051
Net income		**$ 76,331**	$ 1,229,381	**$** 1,029,285
Currency translation adjustment		**(325,353)**	(289,633)	157,288
Change in pension benefit obligation		**(10,155)**	87,659	(14,365)
Adjustment of available-for-sale securities		**(5,178)**	(6,571)	(5,059)
Comprehensive (loss) income		**(264,355)**	1,020,836	1,167,149
Comprehensive income (loss) attributable to non-controlling interests		**6,759**	(26,822)	(136,849)
Comprehensive (loss) income attributable to shareholders of Mechel OAO		**$ (257,596)**	$ 994,014	$ 1,030,300
Basic and diluted (loss) earnings per share:	**20**			
(Loss) earnings per share from continuing operations		$ **(0.15)**	$ 2.74	$ 2.19
Income per share effect of discontinued operations		**0.00**	0.00	0.00
Net (loss) income per share		**$ (0.15)**	$ 2.74	$ 2.19
Weighted average number of shares outstanding		**416,270,745**	416,270,745	416,270,745

See accompanying notes to consolidated financial statements

MECHEL OAO (formerly Mechel Steel Group OAO)

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

	Notes	Year ended December 31, 2009	2008	2007
Cash Flows from Operating Activities				
Net income attributable to shareholders of Mechel OAO..		$ **73,741**	$ 1,140,544	$ 913,051
Net income attributable to non-controlling interests		**2,590**	88,837	116,234
Net income		**76,331**	1,229,381	1,029,285
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	**12**	**321,117**	360,587	250,333
Depletion and amortization		**85,558**	102,710	39,982
Foreign exchange loss (gain)......................................		**174,336**	877,428	(54,700)
Deferred income taxes	**21**	**(31,665)**	(403,816)	(18,320)
(Recovery of allowance) allowance for doubtful accounts	**6**	**(38,019)**	103,632	1,411
Change in inventory reserves		**(186,263)**	278,176	1,227
Accretion expense	**17**	**7,398**	6,078	3,101
Loss on write-off of property, plant and equipment......	**12**	**20,940**	4,323	–
Change in undistributed earnings of equity investments	**9**	**(1,200)**	(717)	(8)
Non-cash interest on long-term tax and pension liabilities	**18**	**15,954**	18,426	6,942
Loss on sale of property, plant and equipment		**2,789**	15,641	10,581
Gain (loss) on sale of investments..............................	**24**	**(155)**	(4,568)	13,426
Gain on discharged asset retirement obligations...........		**(9,595)**	–	(14,430)
Income from discontinued operations.........................		–	–	(158)
Gain on accounts payable with expired legal term	**24**	**(2,571)**	(2,370)	(12,158)
Gain on forgiveness of fines and penalties..................	**24**	**(1,241)**	–	(8,311)
Amortization of loan origination fee...........................		**42,561**	28,102	–
Gain resulting from remeasurement of contingent obligation..	**4(a)**	**(494,238)**	–	–
Pension benefit plan curtailment gain	**18**	**(37,717)**	(23,421)	–
Provision for short-term investment		–	–	4,124
Pension service cost, amortization of prior service cost and actuarial (gain) loss, other expenses..........		**7,032**	9,745	2,681
Net change before changes in working capital..................		**(48,648)**	2,599,337	1,255,008
Changes in working capital items, net of effects from acquisition of new subsidiaries:				
Trading securities		–	–	257,185
Accounts receivable..		**97,272**	(140,545)	(118,101)
Inventories..		**481,307**	(658,930)	(254,342)
Trade payable to vendors of goods and services...........		**(100,069)**	594,639	(19,909)
Advances received..		**30,516**	(6,230)	(56,697)
Accrued taxes and other liabilities..............................		**38,450**	(8,353)	(67,155)
Settlements with related parties..................................		**(77,380)**	(9,308)	(3,237)
Current assets and liabilities of discontinued operations		–	–	(234)
Deferred revenue and cost of inventory in transit, net		**10,548**	(16,591)	14,700
Other current assets		**131,273**	(79,196)	(49,686)
Advanced payments to non-state pension funds...........		**7,545**	4,254	(38,981)
Unrecognized income tax benefits..............................		**(9,145)**	(49,136)	(13,582)
Net cash provided by operating activities		**561,669**	2,229,941	904,969
Cash Flows from Investing Activities				
Acquisition of Oriel, less cash acquired	**4(c)**	–	(1,439,600)	–
Acquisition of Ductil Steel S.A., less cash acquired	**4(d)**	–	(197,621)	–
Acquisition of HBL, less cash acquired	**4(b)**	**(8,387)**	(14,593)	–
Advances paid for the BCG Companies	**9**	–	(438,623)	–
Acquisition of the BCG Companies, less cash acquired	**4(a)**	**4,908**	–	–

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MECHEL OAO (formerly Mechel Steel Group OAO)

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

	Notes	Year ended December 31, 2009	2008	2007
continued from previous page				
Acquisition of Yakutugol, less cash acquired	4(k)	–	–	(1,580,004)
Acquisition of Elgaugol, less cash acquired	4(k)	–	–	(345,861)
Acquisition of SKPP, less cash acquired	4(j)	–	–	(280,853)
Acquisition of BFP, less cash acquired	4(h)	–	–	(186,665)
Acquisition of KPSC, less cash acquired	4(i)	–	–	(78,304)
Acquisition of other subsidiaries, less cash acquired		(8,022)	–	(17,454)
Investment in TPP Rousse	4(e)	–	–	(73,539)
Investments in other marketable securities		–	–	(3,289)
Investments in asset trust management		(45,592)	–	–
Proceeds from asset trust management		38,720		
Proceeds from disposal of investments in affiliates		2,343	–	–
Proceeds from disposal of non-marketable securities		6,913	7,457	–
Short-term loans issued and other investments		(137,276)	–	(27,743)
Proceeds from short-term loans issued		46,803	930	18,709
Proceeds from disposals of property, plant and equipment		2,403	3,644	456
Purchases of mineral licenses		(2,299)	(4,344)	(3,517)
Purchases of property, plant and equipment		(610,445)	(1,166,987)	(830,024)
Net cash used in investing activities		(709,931)	(3,249,737)	(3,408,088)
Cash Flows from Financing Activities				
Proceeds from short-term borrowings		1,412,000	5,593,547	4,047,426
Repayment of short-term borrowings		(3,704,128)	(3,856,110)	(3,156,412)
Dividends paid	20	(208,066)	(467,916)	(317,893)
Proceeds from long-term debt		3,022,998	99,377	2,004,780
Repayment of long-term debt		(99,225)	(21,388)	(6,586)
Acquisition of non-controlling interest in subsidiaries	4(n)	(14,631)	(51,346)	(2,378)
Repayment of obligations under finance lease		(33,514)	(48,541)	(21,434)
Net cash provided by financing activities		375,434	1,247,623	2,547,503
Effect of exchange rate changes on cash and cash equivalents		(67,315)	(209,767)	19,781
Net increase in cash and cash equivalents		159,857	18,060	64,165
Cash and cash equivalents at beginning of period	5	254,839	236,779	172,614
Cash and cash equivalents at end of period	5	$ 414,696	$ 254,839	$ 236,779
Supplementary Cash Flow Information				
Interest paid, net of amount capitalized		$ (383,385)	$ (266,010)	$ (85,819)
Income taxes paid, net		$ 27,233	$ (750,863)	$ (471,004)
Non-cash Activities				
Acquisition of equipment under finance lease		$ 19,741	$ 10,637	$ 33,228
Issuance of preferred shares for the acquisition of the BCG Companies	4(a)	$ 496,159	$ –	$ –
Contingent consideration recognized upon the acquisition of the BCG Companies	4(a)	$ 514,607	$ –	$ –

See accompanying notes to consolidated financial statements

MECHEL OAO (formerly Mechel Steel Group OAO)

Consolidated Statement of Changes in Equity

(in thousands of U.S. dollars, except share amounts)	Retained earnings	Accumulated other comprehensive (loss) income	Additional paid-in-capital	Common shares		Preferred shares		Equity attributable to non-controlling interests	Total
				Shares	Amount	Shares	Amount		
Balance as of December 31, 2006	**$ 2,130,911**	**$ 188,218**	**$ 412,327**	**416,270,745**	**$ 133,507**	**–**	**$ –**	**$ 163,036**	**$ 3,027,999**
Net income	913,051	–	–	–	–	–	–	116,234	1,029,285
Dividends	(317,893)	–	–	–	–	–	–	–	(317,893)
Cumulative translation adjustment	–	136,673	–	–	–	–	–	20,615	157,288
Adjustment of available-for-sale securities	–	(5,059)	–	–	–	–	–	–	(5,059)
Change in pension benefit obligation	–	(14,365)	–	–	–	–	–	–	(14,365)
Additional capital due to restructuring at subsidiaries	–	–	2,743	–	–	–	–	–	2,743
Acquisitions of non-controlling interests	–	–	–	–	–	–	–	638	638
Effect of change in accounting principle (ASC 740, previously codified as FIN 48)	(75,180)	–	–	–	–	–	–	–	(75,180)
Balance as of December 31, 2007	**$ 2,650,889**	**$ 305,467**	**$ 415,070**	**416,270,745**	**$ 133,507**	**–**	**–**	**$ 300,523**	**$ 3,805,456**
Net income	1,140,544	–	–	–	–	–	–	88,837	1,229,381
Dividends	(468,135)	–	–	–	–	–	–	–	(468,135)
Cumulative translation adjustment	–	(227,618)	–	–	–	–	–	(62,015)	(289,633)
Adjustment of available-for-sale securities	–	(6,571)	–	–	–	–	–	–	(6,571)
Change in pension benefit obligation	–	87,659	–	–	–	–	–	–	87,659
Acquisitions of non-controlling interests	–	–	–	–	–	–	–	(36,496)	(36,496)
Balance as of December 31, 2008	**$ 3,323,298**	**$ 158,937**	**$ 415,070**	**416,270,745**	**$ 133,507**	**–**	**–**	**$ 290,849**	**$ 4,321,661**
Net income	73,741	–	–	–	–	–	–	2,590	76,331
Dividends	(208,066)	–	–	–	–	–	–	–	(208,066)
Cumulative translation adjustment	–	(316,004)	–	–	–	–	–	(9,349)	(325,353)
Adjustment of available-for-sale securities	–	(5,178)	–	–	–	–	–	–	(5,178)
Change in pension benefit obligation	–	(10,155)	–	–	–	–	–	–	(10,155)
Acquisitions of non-controlling interests	–	–	(11,588)	–	–	–	–	(3,122)	(14,710)
Issuance of preferred shares	–	–	470,845	–	–	83,254,149	25,314	–	496,159
Balance as of December 31, 2009	**$ 3,188,973**	**$ (172,400)**	**$ 874,327**	**416,270,745**	**$ 133,507**	**83,254,149**	**$ 25,314**	**$ 280,968**	**$ 4,330,689**

See accompanying notes to consolidated financial statements

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

1. GENERAL

(a) Formation

Mechel OAO ("Mechel", formerly – 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 affiliates, 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. 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,		
				2009	2008	2007
Mechel International Holdings GmBH (MIH)[1]	Switzerland	Holding and trading	July 1, 1995	100.0%	100.0%	100.0%
Mechel Metal Supply AG (MMS)	Liechtenstein	Trading	Oct 30, 2000	100.0%	100.0%	100.0%
Mechel Trading House (MTH)	Russia	Trading	June 23, 1997	100.0%	100.0%	100.0%
Southern Kuzbass Coal Company (SKCC), including its most significant subsidiaries:	Russia	Coal mining	Jan 21, 1999	95.8%	95.4%	93.5%
Tomusinsk Open Pit Mine (TOPM)	Russia	Coal mining	Jan 21, 1999	74.5%	74.5%	74.4%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	Dec 27, 2001	94.2%	94.2%	93.8%
Southern Urals Nickel Plant (SUNP)	Russia	Nickel	Dec 27, 2001	84.1%	84.1%	79.9%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 24, 2002	93.3%	93.3%	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 14, 2002	91.4%	91.4%	90.4%
Mechel Targoviste S.A.	Romania	Steel products	Aug 28, 2002	86.6%	86.6%	86.6%
Mechel Zeljezara (MZ)**	Croatia	Steel products	March 17, 2003	–	–	100.0%
Ural Stampings Plant (USP)	Russia	Steel products	April 24, 2003	93.8%	93.8%	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	Oct 16, 2003	85.6%	85.6%	85.6%
Mechel Campia Turzii S.A.	Romania	Steel products	June 20, 2003	86.6%	86.6%	86.6%
Mechel Nemunas (MN)	Lithuania	Steel products	Oct 15, 2003	100.0%	100.0%	100.0%
Mechel Energo	Russia	Power trading	Feb 3, 2004	100.0%	100.0%	100.0%
Port Posiet	Russia	Transportation	Feb 11, 2004	97.1%	97.1%	97.1%
Kaslinsky Architectural Art Casting Plant	Russia	Steel products	April 14, 2004	100.0%	100.0%	100.0%
Izhstal	Russia	Steel products	May 14, 2004	88.4%	88.4%	88.2%
Port Kambarka	Russia	Transportation	April 27, 2005	90.4%	90.4%	90.4%
Mechel Service***	Russia	Trading	May 5, 2005	100.0%	100.0%	100.0%
Mechel Trading Ltd.	Switzerland	Trading	Dec 20, 2005	100.0%	100.0%	100.0%
Metals Recycling	Russia	Scrap collecting	March 14, 2006	100.0%	100.0%	100.0%
Mechel Hardware ****	Russia	Trading	March 21, 2006	–	–	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	Oct 4, 2006	99.5%	99.5%	97.1%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 19, 2007	98.3%	98.3%	98.0%
Mechel Finance	Russia	Corporate finance	June 6, 2007	100.0%	100.0%	100.0%
Kuzbass Power Sales Company (KPSC)	Russia	Power sales	June 30, 2007	72.1%	72.1%	72.0%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferroalloy production	Aug 6, 2007	100.0%	100.0%	100.0%
Yakutugol	Russia	Coal mining	Oct 19, 2007	100.0%	100.0%	100.0%
Ductil Steel S.A. (Ductil Steel)	Romania	Steel products	April 8, 2008	100.0%	100.0%	–
Oriel Resources Plc. (Oriel)	Great Britain	Chrome and nickel	Apr 17, 2008	100.0%	100.0%	–
HBL Holding GmbH (HBL)	Germany	Trading	Sept 26, 2008	100.0%	100.0%	–
The BCG Companies	USA	Coal mining	May 7, 2009	100.0%	–	–

* Date, when a control interest was acquired or a new company established by either the Group or Controlling Shareholders.
** Mechel Zeljezara (MZ) was liquidated on February 21, 2008.
*** On March 10, 2009, a new subsidiary of Mechel OAO, Mechel Service Global B.V., was incorporated.
**** Merged with MTH in July 2008.

[1] Formerly - Mechel Trading AG (MT). Renamed on December 20, 2005.

(b) Controlling Shareholders and reorganization

From 1995 until December 2006, the Controlling Shareholders acted in concert pursuant to a written Ownership, Control and Voting Agreement, which requires them to vote all shares of Mechel's subsidiaries owned by them in the same manner. The establishment of the Group in March 2003 involved the contribution of certain of the above subsidiaries, acquired before March 19, 2003, by the Controlling Shareholders to Mechel in exchange for all the outstanding capital stock of Mechel, forming a new holding company via an exchange of shares.

As a result of this restructuring, the Controlling Shareholders maintained their original equal ownership in the subsidiaries through Mechel and Mechel became a direct holder of the stock of the subsidiaries.

Shareholders in each of Mechel's subsidiaries before the restructuring who were not Controlling Shareholders did not contribute any shares in these subsidiaries to Mechel in exchange for its shares and were considered as outside the control group, and these shareholders retained a non-controlling interest in the subsidiaries. Thus, to the extent non-controlling interests existed in the entities under common control prior to March 19, 2003, such non-controlling interests did not change as a result of the formation of Mechel and the reorganization of the Group.

During 2006, one of the Controlling Shareholders sold all his Mechel's stock to the other Controlling Shareholder, and the Ownership, Control and Voting Agreement was terminated on December 21, 2006.

(c) Basis of presentation

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 akin to a pooling for the periods presented.

(d) Business

The Group operates in four business segments: steel (comprising steel and steel products), mining (comprising coal and iron ore), ferroalloy (comprising nickel, chrome and ferrosilicon) and power (comprising electricity and heat power), and conducts operations in Russia, Lithuania, Kazakhstan, USA and Central and Eastern 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. The Group will require a significant amount of cash to fund capital improvement programs and business acquisitions. While the Group will utilize funds from operations, it expects to continue to rely on capital markets and other financing sources for its capital needs.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which presumes that the Group will be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future. The Group's activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. As of December 31, 2009, the Group had a working capital deficiency of $537,141 and 2009 operating income significantly decreased from the prior year. In addition, as of that date the Group breached a number of financial and non-financial covenants in various borrowing arrangements (see Note 15) for all of which it has received waivers and/or amended covenants through 2010. Based on the Group's forecasts management believes the Group will be able to meet all such covenants through 2010.

Management's objective is to ensure that the Group meets its liquidity requirements, continues capital expenditures, repays borrowings as they fall due and continues as a going concern. To accomplish that the Group has continued to secure additional borrowing facilities and renew or refinance existing facilities as described below. In addition, the Group has experienced increasing price levels for its products in the later part of 2009 and early 2010 compared to the first half of 2009. Although there is no certainty that such experience will continue in the future, management's plans for 2010 are based on a continuation of these improved price levels accompanied by an increase in demand for its products. On this basis management expects operating cash flows to provide an increased source of funds in 2010 to be available for capital expenditures and debt servicing.

To refinance debt falling due in 2010, the Group has initiated actions with various banks and other lenders to obtain new long-term borrowing facilities as well as renewing or refinancing existing arrangements, the most significant of which are presented in the analysis below.

- As of December 31, 2009, the Group had unutilized committed credit facilities from financial institutions expiring after 2010 in the total amount of $328,508.

- As disclosed in Note 27, during the period from January 1, 2010 through the date of authorization of issue of these consolidated financial statements, the Group received additional financing as follows:

  - 5 billion Russian rubles from the placement of its secured non-convertible interest-bearing bonds maturing in 2013 ($170,443 as of the placement date);
  - $266,979 in the form of loans from Urals Reconstruction and Development Bank, Sberbank, UniCredit Bank, SKB Bank and Uralsib Bank repayable in 2011-2015.

- As of April 21, 2010, the Group had registered, but not yet issued, ruble-denominated bonds in an aggregate principal amount of 40 billion Russian rubles ($1,372,773) with the Moscow Interbank Currency Exchange (MICEX). Under this program, in April 2010, the Group is placing a bond issue in the amount of 10 billion rubles ($343,193) of such registered bonds providing the Group with additional financing flexibility during 2010.

Management expects to continue to issue additional ruble bonds during 2010 and bank borrowings to provide specific financing for capital projects.

Management has concluded that cash generated from operations, current cash and short-term investments on hand, and borrowings under the credit facilities described above will be sufficient to meet the Group's working capital requirements, anticipated capital expenditures and scheduled debt payments in 2010. Furthermore management believes that the Group has sufficient flexibility in deferring its non-critical capital expenditures in case specific project financing is not obtained and in managing its working capital to provide further financial flexibility as needed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

Russian affiliates 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 Regulations (“RAR”). Foreign subsidiaries and affiliates 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. The financial statements and accounting reports for the Group and its subsidiaries and affiliates for the purposes of preparation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) have been translated and adjusted on the basis of the respective standalone Russian statutory or other GAAP financial statements.

The accompanying consolidated financial statements differ from the financial statements issued for Russian statutory 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 U.S. GAAP. 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) pension benefit obligations; (5) foreign currency translation; (6) deferred income taxes; (7) accounting for tax penalties; (8) revenue recognition; (9) valuation allowances for unrecoverable assets, and (10) recording investments at fair value.

In June 2009, the Financial Accounting Standards Board (“FASB”) issued the Accounting Standards Update (“ASU”) 2009-01 (“ASU 2009-01”). ASU 2009-01, also issued as FASB statement of Financial Accounting Standards (“SFAS”) 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles”, is effective for financial statements issued after September 15, 2009. ASU 2009-01 requires that the FASB’s Accounting Standards Codification (“ASC”) become the single source of authoritative U.S. GAAP principles recognized by the FASB. The Group adopted ASU 2009-01 and changed references to U.S. GAAP in its consolidated financial statements issued for the year 2009. The adoption of ASU 2009-01 did not have an impact on the Group’s consolidated financial position or results of operations.

(b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of all majority owned subsidiaries where no non-controlling interests or group of non-controlling interests exercises substantive participating rights. Investments in companies that the Group does not control, but has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method. Accordingly, the Group’s share of net earnings and losses from these companies is included in the consolidated income statements as income from equity investments. All other investments in equity securities are recorded at cost and adjusted for impairment, if any. Intercompany profits, transactions and balances have been eliminated in consolidation.

(c) Business combinations

From January 1, 2009, the Group accounts for its business acquisitions according to FASB ASC 805, “Business Combinations” (“ASC 805”), and FASB ASC 810, “Consolidation” (“ASC 810”). The Group applies the acquisition method of accounting and recognizes the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, based on their respective estimated fair values measured as of that date. Determining the fair value of assets acquired and liabilities assumed requires management’s judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, license and other asset lives and market multiples, among other items.

(d) Goodwill

Goodwill represents the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. For the acquisitions with the effective date before January 1, 2009, the excess of the fair value of net assets acquired over cost, known as negative goodwill, was allocated to the acquired non-current assets, except for the deferred taxes, if any, until they were reduced to zero. Since January 1, 2009, the excess of the fair value of net assets acquired over the fair value of the consideration transferred plus the fair value of any non-controlling interests is recognized as a gain in the consolidated statements of income and comprehensive (loss) income on the acquisition date.

For investees accounted for under the equity method, the excess of cost to acquire a share in those companies over the Group's share of fair value of their net assets as of the acquisition date is treated as goodwill embedded in the investment account. Goodwill arising from equity method investments is not amortized, but tested for impairment on annual basis.

(e) Non-controlling interest

Non-controlling interests in the net assets and net results of consolidated subsidiaries are shown under the "Non-controlling interests" and "Net income attributable to non-controlling interests" lines in the accompanying consolidated balance sheets and statements of income and comprehensive (loss) income, respectively. Losses attributable to the Group and the non-controlling interests in a subsidiary may exceed their interests in the subsidiary's equity. The excess, and any further losses attributable the Group and the non-controlling interests, are to be attributed to those interests. That is, the non-controlling interests continue to be attributed to its share of losses even if that attribution results in a deficit non-controlling interest balance.

Prior to the Group' s adoption of ASC 810 on January 1, 2009, the Group recognized 100% of losses for majority-owned subsidiaries that incur losses, after first reducing the related non-controlling interests' balances to zero, unless minority shareholders were committed to fund the losses. Further, when a majority-owned subsidiary becomes profitable, the Group recognizes 100% of profits until such time as the excess losses previously recorded have been recovered. Thereafter, the Group recognizes profits in accordance with the underlying ownership percentage.

(f) Reporting and functional currencies

The Group has determined its reporting currency to be the U.S. dollar. The functional currencies for Russian, Romanian, Kazakh and German subsidiaries of the Group are the Russian ruble, the Romanian lei, the Kazakh tenge and Euro, respectively. The U.S. dollar is the functional currency of the other international operations of the Group.

The translation adjustments resulting from the process of translating financial statements from the functional currency into the reporting currency are included in determining other comprehensive income. Mechel's Russian, Romanian, Kazakh and German subsidiaries translate Russian rubles, leis, tenge and Euros into U.S. dollars using the current rate method as prescribed by FASB ASC 830, "Foreign Currency Matters", ("ASC 830") for all periods presented.

(g) Management estimates

The preparation of the consolidated financial statements requires management to make 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. Actual results could differ from those estimates.

(h) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depletion and depreciation. Property, plant and equipment acquired in business combinations are initially recorded at their respective fair values as determined by independent appraisers in accordance with the requirements of ASC 805. In the reporting periods ending before January 1, 2009, for the purpose of determining the carrying amounts of the property, plant and equipment pertaining to interests of non-controlling shareholders in business combinations when less than a 100% interest is acquired, the Group used appraised fair values as of the acquisition dates in the absence of reliable and accurate historical cost bases for property, plant and equipment, which represented a departure from the U.S. GAAP effective before January 1, 2009. The portion of non-controlling interest not related to property, plant and equipment was determined based on the historical cost of those assets and liabilities.

(i) Mining assets and processing plant and equipment

Mineral exploration costs incurred prior to establishing proven and probable reserves for a given property are expensed as incurred. Proven and probable reserves are established based on independent feasibility studies and appraisals performed by mining engineers. No exploration costs were capitalized prior to the point when proven and probable reserves are established. Reserves are defined as that part of a mineral deposit, which could be economically and legally extracted or produced at the time of the reserve determination. Proven reserves are defined as reserves, for which (a) 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 (b) 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. Probable reserves are defined as 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. Accordingly, the degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

Development costs are capitalized beginning after proven and probable reserves are established. 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. At the Group's surface mines, these costs include costs to further delineate the mineral deposits and initially expose the mineral deposits and construction costs for entry roads, and drilling. Additionally, interest expense allocable to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Expenditures for improvements are capitalized, while costs related to maintenance (turnarounds) are expensed as incurred. In addition, cost incurred to maintain current production capacity at a mine and exploration expenditures are charged to expenses as incurred. Stripping costs incurred during the production phase of a mine are expensed as incurred.

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 after exhausting of the reserves of such mine or the field, these assets cannot be further used for any other purpose without a capital reconstruction. 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 license term for mining assets related to the mineral licenses acquired prior to August 22, 2004 (refer to Note 3(k)), or the estimated lives of the mines for mining assets related to the mineral licenses acquired after that date.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

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.

(j) Other property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocable material and manufacturing overhead costs. When construction activities are performed over an extended period, interest costs incurred during construction 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.

The costs of planned major maintenance activities are recorded as the costs are actually incurred and are not accrued in advance of the planned maintenance. Costs for activities that lead to the prolongation of useful life or to expanded future use capabilities of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

Property, plant and equipment are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is included in the consolidated statements of income and comprehensive (loss) income.

The following useful lives are used as a basis for calculating depreciation:

Category of asset	Useful economic lives estimates, years
Buildings	20-45
Land improvements	20-50
Operating machinery and equipment, including transfer devices	7-30
Transportation equipment and vehicles	4-15
Tools, furniture, fixtures and other	4-8

(k) Mineral licenses

The mineral licenses are recorded at their fair values at the date of acquisition, based on the appraised fair value. Fair value of the mineral licenses acquired prior to August 22, 2004 (the date of change in the Russian Subsoil Law that makes license extensions through the end of the estimated proven and probable reserve period reasonably assured), is based on independent mining engineer appraisals for proven and probable reserves during the license term. Such mineral licenses are amortized using the units-of-production method over the shorter of the license term or the estimated proven and probable reserve depletion period.

Fair value of the mineral licenses acquired after August 22, 2004 is based on independent mining engineer appraisals of the estimated proven and probable reserve through the estimated end of the depletion period. Such mineral licenses are amortized using the units-of-production method through the end of the estimated proven and probable reserve depletion period.

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. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

The Group did not use the work of independent mining engineers to estimate the Group's proven and probable reserves as of December 31, 2009 and 2008, except for those related to newly acquired subsidiaries. The Group's proven and probable reserve estimates as of that 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. In 2008, the Group established a policy, according to which the Group would engage independent mining engineers to review its proven and probable reserves at least every three years unless circumstances or additional factors warrant an additional analysis. 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 continue to involve independent mining engineers.

(l) Intangible assets

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. Indefinite-lived intangibles are evaluated annually for impairment or when indicators exist indicating such assets may be impaired, such evaluation assumes determination of fair value of intangible assets based on a valuation model that incorporates expected future cash flows and profitability projections.

(m) Asset retirement obligations

The Group has numerous asset retirement obligations associated with its core business activities. The Group is required to perform these obligations under law or contract once an asset is permanently taken out of service. Most of these obligations are not expected to be paid until many years into the future and will be funded from general resources at the time of removal. The Group's asset retirement obligations primarily relate to mining and steel production facilities with related landfills and dump areas and mines. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as forecasted dismantling and other related costs. Asset retirement obligations are calculated in accordance with the provisions of FASB ASC 410, "Asset Retirement and Environmental Obligations" ("ASC 410").

In order to calculate the amount of asset retirement obligations, the expected cash flows are discounted using the estimate of credit-adjusted risk-free rate as required by ASC 410. The credit-adjusted risk-free rate is calculated as a weighted average of risk-free interest rates for Russian Federation bonds with maturity dates that coincide with the expected timing of when the asset retirement activities will be performed, adjusted for the effect of the Group's credit standing. For the U.S. subsidiaries, the credit-adjusted risk-free rate is calculated as a weighted average of risk-free interest rates for the U.S. treasury bonds with maturity dates that coincide with the expected timing of when the asset retirement activities will be performed, adjusted for the effect of the Group's credit standing.

(n) Long-lived assets impairment, including definite-lived intangibles and goodwill

The Group follows the requirements of FASB ASC 360, "Property, Plant and Equipment" ("ASC 360"), which addresses financial accounting and reporting for the impairment and disposal of long-lived assets, and FASB ASC 350, "Intangibles - Goodwill and Other" ("ASC 350"), with respect to impairment of goodwill and intangibles. The Group reviews the carrying value of its long-lived assets, including property, plant and equipment, investments, goodwill, licenses to use mineral reserves (inclusive of capitalized costs related to asset retirement obligations), and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable as prescribed by ASC 350 and ASC 360. Recoverability of long-lived assets, excluding goodwill, is assessed by a comparison of the carrying amount of the asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated undiscounted cash flows expected to be generated by the asset or group of assets. If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group of assets, the asset or group of assets is considered impaired and expense is recognized equal to the amount required to reduce the carrying amount of the asset or group of assets to their fair value. Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. For assets and groups of assets relating to and including the licenses to use mineral reserves, future cash flows include estimates of recoverable minerals, 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. Recoverable minerals refer to the estimated amount that will be obtained from proven and probable reserves. Estimated future cash flows are based on the Group's assumptions and are subject to risk and uncertainty that are considered in the discount rate applied in the impairment testing.

ASC 350 prohibits the amortization of goodwill. Instead, goodwill is tested for impairment at least annually and on an interim basis when an event occurs that could potentially lead to the impairment, i.e. significant decline in selling prices, production volumes or operating margins. Under ASC 350, goodwill is assessed for impairment by using the fair value based method. The Group determines fair value by utilizing discounted cash flows. The impairment test required by ASC 350 for goodwill includes a two-step approach. Under the first step, companies must compare the fair value of a "reporting unit" 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.

When performing impairment tests, 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 Group estimates discount rates using after-tax rates that reflect current market rates for investments of similar risk. 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. While impairment of long-lived assets does not affect reported cash flows, it does result in a non-cash charge in the consolidated statements of income and comprehensive (loss) income, which could have a material adverse effect on the Group's results of operations or financial position.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The Group performed an impairment analysis of long-lived assets, including definite-lived intangibles and goodwill at all major Group's subsidiaries as of December 31, 2009. Cash flow forecasts used in the test were based on the assumptions as of December 31, 2009. The forecasted period for non-mining subsidiaries of the Group was assumed to be eight years to reach stabilized cash flows, and the value beyond the forecasted period was based on the terminal growth rate of 2.5%. For mining subsidiaries of the Group the forecasted period was based on the remaining life of the mines. Cash flows projections were prepared using assumptions that comparable market participants would use.

Forecasted inflation rates for the period 2010-2017, which were used in cash flow projections, were as follows:

Region	2010	2011	2012	2013	2014	2015	2016	2017
Russia	10%	9%	8%	7%	6%	6%	6%	6%
USA	2%	3%	3%	3%	2%	2%	2%	2%
Europe	3%	2%	2%	2%	2%	2%	2%	2%
Romania	5%	4%	4%	4%	4%	4%	4%	4%
Bulgaria	5%	4%	4%	4%	4%	4%	4%	4%
Kazakhstan	10%	9%	8%	7%	6%	6%	6%	6%

Discount rates were estimated in nominal terms on the weighted average cost of capital basis. To discount cash flows projections, the Group used similar discount rates for Russia, Eastern Europe, Kazakhstan, and the USA, assuming that this approach reflected market rates for investments of a similar risk as of December 31, 2009 in these regions. These rates, estimated for each year for the forecasted period, are as follows:

	2010	2011	2012	2013	2014	2015	2016	2017
Discount rate	14.92%	14.58%	13.76%	12.98%	12.24 %	11.53%	10.86%	10.25%

Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill performed by the Group for all major subsidiaries as of December 31, 2009, no impairment loss was recognized.

Based on the sensitivity analysis carried out as of December 31, 2009, the following minimum changes in key assumptions used in the goodwill impairment test would trigger the impairment of goodwill at some reporting units (the actual impairment loss that the Group would need to recognize under these hypotheses would depend on the appraisal of the fair values of the reporting unit's assets, which has not been conducted):

- 2% decrease in future planned revenues;
- 1% point increase in discount rates for each year within the forecasted period;
- 1% point decrease in cash flows growth rate after the forecasted period.

The Group believes that the values assigned to key assumptions and estimates represent the most realistic assessment of future trends.

(o) Finance lease

The cost of equipment acquired under the capital (finance) lease contracts is measured at the lower of its fair value or the present value of the minimum lease payments, and reflected in the balance sheet at the measured amount less accumulated depreciation. The cost of the equipment is subject to an annual impairment review as described in 3(n). Capital lease liabilities are divided into long-term and current portions based on the agreed payment schedule and discounted using the lessor's implicit interest rate. Depreciation of assets acquired under the capital (finance) lease is included into depreciation charge for the period.

(p) Inventories

Inventories are stated at the lower of acquisition/manufacturing cost or market value. Cost is determined on a weighted average basis 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, nickel 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.

Market value is the estimated price, at which inventories can be sold in the normal course of business after allowing for the cost of completion and sale. The Group determines market value of inventories for a group of items of inventories with similar characteristics. The term "market" means current replacement cost not to exceed net realizable value (selling price less reasonable estimable costs of completion and disposal) or be less than net realizable value adjusted for a normal profit margin. Market value for each group is compared with an acquisition/manufacturing cost, and the lower of these values is used to determining the amount of the write-down of inventories, which is recorded within the cost of sales in the consolidated statements of income and comprehensive (loss) income.

(q) Accounts receivable

Accounts receivable are stated at net realizable value. If receivables are deemed doubtful, bad debt expense and a corresponding allowance for doubtful accounts is recorded. If receivables are deemed uncollectible, the related receivable balance is charged off. Recoveries of receivables previously charged off are recorded when received. Receivables that do not bear interest or bear below market interest rates and have an expected term of more than one year are discounted with the discount subsequently amortized to interest income over the term of the receivable. The Group reviews the valuation of accounts receivable on a regular basis. The amount of allowance for doubtful accounts is calculated based on the ageing of balances in accordance with contract terms. In addition to the allowance for specific doubtful accounts, the Group applies specific rates to overdue balances of its subsidiaries depending on the history of cash collections and future expectations of conditions that might impact the collectibility of accounts of each individual subsidiary. Accounts receivable, which are considered non-recoverable (those aged over three years or due from bankrupt entities) are written-off against allowance or charged off to operating expenses (if no allowance was created in previous periods).

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in transit, checks and deposits with banks, as well as other bank deposits with an original maturity of three months or less.

(s) Retirement benefit obligations

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.

Contribution to the Russian pension fund together with other social contributions are included within a unified social tax ("UST"), which is calculated by the application of a regressive rate from 26% (applied to the part of the annual gross salary below 280 thousand Russian rubles or approximately $9 translated at the exchange rate of the Russian rubles to the U.S. dollar at December 31, 2009) to 2% (applied to the part of the annual gross salary above 600 thousand Russian rubles or approximately $20 translated at the exchange rate of the Russian ruble to the U.S. dollar at December 31, 2009) to the annual gross remuneration of each employee. UST is allocated to three social funds (including the Russian pension fund), where the rate of contributions to the Russian Pension Fund varies from 14% to 5.5%, respectively, depending on the annual gross salary of each employee. Contributions to the Russian pension fund for the years ended December 31, 2009, 2008 and 2007 were $75,164, 102,827 and $71,329, respectively.

The BCG Companies contribute to multiemployer defined benefit pension plans sponsored by the United Mine Workers of America ("UMWA") labor union. The amount of contributions to the UMWA based on the number of employees, a specified rate and the total number of employee hours worked for the period from the acquisition date through December 31, 2009 was approximately $2,000.

In addition, 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 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 income statement, 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.

The Group's U.S. subsidiaries adopted the FASB ASC 715, "Compensation – Retirement Benefits" ("ASC 715"), and use the Projected Unit Credit method of accounting for post-retirement health care benefits, which is intended to match revenues with expenses and attributes an equal amount of an employee's projected benefit to each year from date of plan entry to the date that the employee is first eligible to retire with full benefits. The actuarially estimated accumulated postretirement benefit obligation ("APBO") was recognized at the acquisition of the U.S. subsidiaries on May 7, 2009 (refer to Note 4(a)). The APBO represents the present value of the estimated future benefits payable to current retirees and a pro rata portion of estimated benefits payable to active employees upon retirement (refer to Note 18).

(t) Revenue recognition

Revenue is recognized on an accrual basis when earned and realizable, which generally occurs when products are delivered to customers. In some instances, while title of ownership has been transferred, the revenue recognition criteria are not met as the selling price is subject to adjustment based upon the market prices. Accordingly, in those instances, revenue and the related cost of goods sold are recorded as deferred revenues and deferred cost of inventory in transit in the consolidated balance sheets and are not recognized in the consolidated income statement until the price becomes fixed and determinable, which typically occurs when the price is settled with the end-customer. In certain foreign jurisdictions (e.g. Switzerland), the Group generally retains title to goods sold to end-customers solely to ensure the collectibility of its accounts receivable. In such instances, all other sales recognition criteria are met, which allows the Group to recognize sales revenue in conformity with underlying sales contracts.

In the Power segment (refer to Note 25), 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.

Sales are recognized net of applicable provisions for discounts and allowances and associated sales taxes (VAT) and export duties.

(u) Advertising costs

Advertising costs are expensed as incurred. During the years ended December 31, 2009, 2008 and 2007, advertising costs were insignificant.

(v) 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. These costs totaled $689,777, $842,475 and $330,290 for the years ended December 31, 2009, 2008 and 2007, respectively.

(w) Income taxes

Provision is made in the financial statements for taxation of profits in accordance with applicable legislation currently in force in individual jurisdictions. The Group accounts for income taxes under the liability method in accordance with FASB ASC 740, "Income Taxes" ("ASC 740"). Under the liability method, deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on the expectations of future taxable income and reversals of the various taxable temporary differences.

On January 1, 2007, the Group adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of SFAS No. 109" ("FIN No. 48"), later formally codified in ASC 740. This authoritative guidance prescribes the minimum recognition threshold a tax position must meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Group accounted for $75,180, including interest and penalties for $19,253, as a cumulative adjustment of the adoption of the aforementioned authoritative guidance to the January 1, 2007 retained earnings. As of December 31, 2009 and 2008, the Group included accruals for unrecognized income tax benefits totaling $17,172 and $27,176, including interest and penalties for $7,928 and $8,665 as a component of accrued liabilities, respectively. Interest and penalties recognized in accordance with ASC 740 are classified in the financial statements as income taxes.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(x) Comprehensive income

FASB ASC 220, "Comprehensive Income" ("ASC 220"), requires the reporting of comprehensive income in addition to net income. Accumulated other comprehensive income includes foreign currency translation adjustments, unrealized holding gains and losses on available-for-sale securities and on derivative financial instruments, as well as pension liabilities not recognized as net periodic pension cost. For the years ended December 31, 2009, 2008 and 2007, in addition to net income, total comprehensive income included the effect of translation of the financial statements denominated in currencies other than the reporting currency (in accordance with ASC 830), changes in the carrying values of available-for-sale securities, and change in pension benefit obligation subsequent to the adoption of the ASC 715. In accordance with ASC 715, the Group recognizes actuarial gains and losses, prior service costs and credits and transition assets or obligations (the full surplus or deficit in their plans) in the balance sheet. As of December 31, 2009 and 2008, the amount of comprehensive income included the effect of curtailment and actuarial gains and losses.

Accumulated other comprehensive (loss) income is comprised of the following components:

	December 31, 2009	December 31, 2008
Cumulative currency translation adjustment	(215,814)	100,190
Unrealized losses on available-for-sale securities	(5,774)	(596)
Pension adjustments	49,188	59,343
Total accumulated other comprehensive (loss) income	**(172,400)**	**158,937**

(y) Stock-based compensation

The Group applies the fair-value method of accounting for employee stock-compensation costs as outlined in FASB ASC 718, "Compensation – Stock Compensation" ("ASC 718"). During the years ended December 31, 2009, 2008 and 2007, the Group did not enter in any employee stock-compensation arrangements.

(z) Segment reporting

According to FASB ASC 280, "Segment Reporting" ("ASC 280"), segment reporting follows the internal organizational and reporting structure of the Group. The Group's operations are presented in four 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, hardware and coke products;
- Mining segment, comprising production and sales of coal (coking and steam) and iron ore, which supplies raw materials to the Steel, Ferroalloy 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, gas and heat power to the Steel, Ferroalloy and Mining segments;
- Ferroalloy segment, comprising production and sales of nickel, chrome and ferrosilicon, which supplies raw materials to the Steel segment and also sells substantial amounts of raw materials to third parties.

(aa) Financial instruments

The carrying amount of the Group's financial instruments, which include cash equivalents, marketable securities, non-marketable debt securities, cost method investments, accounts receivable and accounts payable, and short-term borrowings approximates their fair value as of December 31, 2009 and 2008. For long-term borrowings, the difference between fair value and carrying value is shown in Note 16. The Group, using available market information and appropriate valuation methodologies, such as discounted cash flows, has determined the estimated fair values of financial instruments. Since different entities are located and operate in different regions of Russia and elsewhere with different business and financial market characteristics, there are generally very limited or no comparable market values available to assess the fair value of the Group's debt and other financial instruments. The cost method investments are shares of Russian companies that are not publicly traded and their market value is not available. It is not practicable for the Group to estimate the fair value of these investments, for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation would be excessive considering the materiality of the instruments to the Group. Therefore, such investments are recorded at cost (refer to Note 9).

(bb) Guarantees

In accordance with FASB ASC 460, "Guarantees" ("ASC 460"), the fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense or re-measurement adjustments are is included in the related line items of the consolidated statements of income and comprehensive (loss) income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

(cc) Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements, which may further result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. The Group's management makes an assessment of such contingent liabilities, which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

(dd) Derivative instruments and hedging activities

The Group recognizes its derivative instruments as either assets or liabilities at fair value in accordance with FASB ASC 815, "Derivatives and Hedging" ("ASC 815"). The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as an accounting hedge and further, on the type of hedging relationship. For the years ended December 31, 2009, 2008 and 2007, the Group did not have any derivatives designated as hedging instruments. Therefore, any gain or loss on a derivative instrument held by the Group is recognized currently in income. There were no significant gains or losses related to the change in the fair value of derivative instruments included in the net foreign exchange gain (loss) in the accompanying consolidated statements of income and comprehensive (loss) income for each of the three years in the period ended December 31, 2009. There were no foreign currency forward and options contracts outstanding as of December 31, 2009 and 2008.

(ee) Investments

The Group recognizes all its debt and equity investments in accordance with FASB ASC 320, "Investments - Debt and Equity Securities" ("ASC 320"). At acquisition, the Group classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. At each reporting date the Group reassesses appropriateness of the classification.

Held-to-maturity securities

Investments in debt securities that the Group has both the ability and the intent to hold to maturity are classified as held-to-maturity and measured at amortized cost in the consolidated financial statements.

Trading securities

Investments (debt or equity), which the Group intends to sell in the near term, and which are usually acquired as part of the Group's established strategy to buy and sell, generating profits based on short-term price movements, are classified by the Group as trading securities. Changes in fair value of trading securities are recognized in earnings.

Available-for-sale securities

Investments (debt or equity), which are not classified as held-to-maturity or trading are classified as available-for-sale. Change in their fair value is reflected in other comprehensive (loss) income.

Recoverability of equity method and other investments

Management periodically assesses the recoverability of its equity method and other investments. For investments in publicly traded entities, readily available quoted market prices are an indication of the fair value of the investments. For investments in non-publicly traded entities, if an identified event or change in circumstances requires an evaluation, management assesses their fair value based on valuation techniques including discounted cash flow estimates or sales proceeds, external appraisals and market prices of similar investments as appropriate.

Management considers the assumptions that a hypothetical market place participant would use in his analysis of discounted cash flows models and estimates of sales proceeds. If an investment is considered to be impaired and the decline in value is other than temporary, the Group records an impairment loss.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(ff) Concentration of credit and other risks

Financial instruments, which potentially expose the Group to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term and long-term investments, trade accounts receivable and other receivables. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments.

The following table presents the exchange rates for the functional and operating currencies at various subsidiaries, other than the reporting currency:

	At April 21,	Year end rates* at December 31,			Average exchange rates* for the years ended December 31,		
Currency	**2010**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Russian ruble	29.14	30.24	29.38	24.55	31.72	24.86	25.58
Swiss franc	0.93	0.97	1.06	1.12	0.92	1.08	1.20
Euro	0.74	0.70	0.71	0.68	0.72	0.68	0.73
Romanian lei	3.08	2.94	2.83	2.46	3.04	2.52	2.44
Lithuania lit	2.56	2.41	2.45	2.36	2.48	2.36	2.52
Kazakh tenge	146.68	148.36	120.77	120.3	147.51	120.33	122.55

(*) Exchange rates shown in local currency units for one U.S. dollar

The majority of the balances and operations not already denominated in the reporting currency were denominated in the Russian ruble, Romanian lei, Swiss franc, Kazakh tenge 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.

(gg) Recently issued accounting pronouncements

Non-controlling Interests in Consolidated Financial Statements

On December 4, 2007, the FASB issued authoritative guidance that establishes accounting and reporting standards for non-controlling interests in partially-owned consolidated subsidiaries and the loss of control of subsidiaries. The most significant changes adopted by this of this guidance are the following:

- A non-controlling interest in a consolidated subsidiary should be displayed in the consolidated statement of financial position as a separate component of equity;
- Earnings and losses attributable to non-controlling interests are no longer reported as part of consolidated earnings. Rather, they are disclosed on the face of the consolidated income statement;
- After control is obtained, a change in ownership interests that does not result in a loss of control should be accounted for as an equity transaction;
- A change in ownership of a consolidated subsidiary that results in a loss of control and deconsolidation is a significant event that triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining ownership interests.

This guidance is effective for the fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The Group adopted this guidance on January 1, 2009 and made necessary changes to the presentation of non-controlling interests in its consolidated financial statements as of December 31, 2009 and for the year then ended. Comparative disclosures and accounts for the prior periods presented herein were also reclassified accordingly. As a result of the implementation of this guidance, $290,849 relating to non-controlling interests as of December 31, 2008 have been reclassified from Non-controlling interest as a separate component of liabilities to Non-controlling interests within Equity. In addition, the amounts related to the acquisition of non-controlling interest in subsidiaries of $51,346 and $2,378 have been reclassified from Investing activities to Financing activities in the consolidated statement of cash flows for the years ended December 31, 2008 and 2007, respectively.

The aforementioned guidance is included in ASC 810.

Business Combinations

On December 4, 2007, the FASB issued authoritative guidance regarding business combinations, which was subsequently amended in April 2009. The most significant changes require the acquirer to:

- Recognize, with certain exceptions, 100% of the fair values of assets acquired, liabilities assumed and non-controlling interests in acquisitions of less than 100% controlling interest when the acquisition constitutes a change in control of the acquired entity;
- Measure acquirer shares issued in consideration for a business combination at fair value on the acquisition date;
- Recognize contingent consideration arrangements at fair value at their acquisition-date fair values, with subsequent changes in fair value generally reflected in earnings;
- With certain exceptions, recognize pre-acquisition loss and gain contingencies at their acquisition-date fair values;
- Capitalize in-process research and development assets acquired;
- Expense, as incurred, acquisition-related transaction costs;
- Capitalize acquisition-related restructuring costs only if the criteria in FASB ASC 420, “Exit or Disposal Cost Obligations” (“ASC 420”), are met as of the acquisition date;
- Recognize changes in income tax valuation allowances and tax uncertainty accruals established in purchase accounting as adjustments to income tax expense (including those related to acquisitions before the adoption of this guidance);
- Push back any adjustments made to the preliminary purchase price allocation during the measurement period to the date of the acquisition;
- Determine what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

The guidance regarding business combinations is required to be adopted concurrently with the guidance related to non-controlling interests in consolidated financial statements and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. The Group adopted the guidance regarding business combinations on January 1, 2009 and applied it to the acquisitions consummated during the year ended December 31, 2009.

The aforementioned guidance is included in ASC 805.

Fair Value Measurement

Effective January 1, 2008, the Group adopted authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Group elected a one-year deferral of the effective date of the aforementioned guidance permitted for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). Following the one-year deferral, the Group adopted this guidance for non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis, such as assets and liabilities measured at fair value in a business combination; impaired property, plant and equipment; intangible assets and goodwill; initial recognition of asset retirement obligations. In 2009, the Group did not have impairment of goodwill or intangible assets. The Group applied the fair value measurement concept of this guidance to its estimates of fair value for goodwill, indefinite lived intangibles, and the acquired non-financial assets and liabilities of the BCG Companies and estimation of contingent consideration included in the purchase price.

In October 2008, the FASB issued authoritative guidance regarding determining the fair value of a financial asset when the market for that asset is not active, to clarify the application of previously issued guidance in inactive markets for financial assets. This guidance became effective upon issuance and included in ASC 320. The adoption of ASC 320 did not have a material effect on Group's financial position and results of operations.

Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued authoritative guidance regarding recognition and presentation of other-than-temporary impairments. This guidance amends the other-than-temporary impairment guidance for debt securities and presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Among other things this guidance replaced the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to sell an impaired security and it is not more likely than not it will be required to sell the security before the recovery of its amortized cost basis. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not have a material impact on the Group's financial position and results of operations.

The aforementioned guidance is included in ASC 320.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued authoritative guidance regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This is additional guidance for estimating fair value in accordance with FASB ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"), when the volume and level of activity for the asset or liability have significantly decreased. This guidance also includes guidance on identifying circumstances that indicate a transaction is not orderly. It reaffirms the objective of fair value measurement - to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not have a material impact on the Group's financial position and results of operations.

The aforementioned guidance is included in ASC 820.

Subsequent Events

In May 2009, the FASB issued authoritative guidance regarding subsequent events, which establishes general standards of accounting for, and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance is effective for financial statements issued for the fiscal years and interim periods ending after June 15, 2009. The Group adopted the aforementioned guidance starting from the consolidated financial statements for the year ended December 31, 2009 and evaluated subsequent events through the date these financial statements were issued, April 21, 2009.

The aforementioned guidance is included in FASB ASC 855, “Subsequent Events” (“ASC 855”).

Variable Interest Entities

In June 2009, the FASB issued authoritative guidance, which amends the consolidation guidance that applies to variable interest entities (“VIEs”). An enterprise will need to reconsider its previous conclusions, including (1) whether an entity is a VIE, (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. The aforementioned guidance is effective as of the beginning of January 1, 2010 for the Group. Early adoption is prohibited. The Group is currently assessing whether the adoption of this guidance will have a material effect on the Group’s financial position and results of operations.

The aforementioned guidance is included in ASC 810.

Measuring Liabilities at Fair Value

In August 2009, the FASB issued ASU 2009-05, “Fair Value Measurements and Disclosures” (“ASU 2009-05”). ASU 2009-05 provided amendments to ASC Topic 820-10 “Fair Value Measurements and Disclosures — Overall”, for the fair value measurement of liabilities. The purpose of ASU 2009-05 is to clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses either the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of ASC 820. This guidance is effective for the first reporting period beginning January 1, 2010 for the Group. The Group is currently assessing whether the adoption of ASU 2009-05 will have a material effect on the Group’s consolidated financial position, results of operations or cash flows.

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

The FASB issued ASU 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (“ASU 2009-17”), which formally codifies FASB SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” that was issued in June 2009, into the FASB’s ASC. The objective of ASU 2009-17 is to improve financial reporting by companies involved with variable interest entities. ASU 2009-17 will require companies to perform an analysis to determine whether the companies’ variable interest or interests give it a controlling financial interest in a variable interest entity. ASU 2009-17 is effective for financial statements issued for years beginning after November 15, 2009, and for interim periods within those years. The Group is currently assessing whether the adoption of ASU 2009-17 will have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

Improving Disclosures about Fair Value Measurements

In February 2010, the FASB issued ASU 2010-06 "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), included to ASC 820. ASU 2010-6 changes the disclosure requirements for fair value measurements. Companies are now required to disclose significant transfers in and out of Levels 1 and 2 of the fair value hierarchy, whereas existing rules only require the disclosure of transfers in and out of Level 3. Additionally, in the rollforward of Level 3 activity, companies should present information on purchases, sales, issuances, and settlements on a gross basis rather than on a net basis as is currently allowed. The update also clarifies that fair value measurement disclosures should be presented for each class of assets and liabilities. A class is typically a subset of a line item in the statement of financial position. Companies should also provide information about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring instruments classified as either Level 2 or Level 3. ASU 2010-06 is effective since the first quarter of 2010 with prospective application, except for the new requirement related to the Level 3 rollforward. Gross presentation in the Level 3 rollforward is effective since the first quarter of 2011 with prospective application. The Group is currently assessing whether the adoption of ASU 2010-06 will have a material effect on the Group's consolidated financial position, results of operations or cash flows.

Reclassifications

Certain reclassifications have been made to the prior periods' consolidated financial statements to conform to the current year presentation. Such reclassifications affect the presentation of balances under transactions with related parties and have no impact on net income or shareholders' equity.

As described above, the Group prospectively adopted authoritative guidance related to non-controlling interest included in ASC 810 with the exception of the presentation and disclosure requirements, which were adopted retrospectively. ASC 810 requires the non-controlling interests to be classified as a separate component of equity, net income and cash flows.

4. ACQUISITIONS, INVESTMENTS AND DISPOSALS

As disclosed in the preceding note, the Group experienced significant growth through acquisitions. The following describes business combinations between January 1, 2007 and December 31, 2009.

(a) The BCG Companies

On August 19, 2008, the Group entered into a stock purchase and sale agreement, last amended and finalized as of May 6, 2009 ("Agreement") with the owners ("Seller") of all the issued and outstanding stock of Bluestone Industries, Inc., Dynamic Energy, Inc. and JCJ Coal Group LLC ("the BCG Companies"). The BCG Companies are coal producers located in the United States, which possess and lease coking coal reserves, coal mines and processing plants. The acquisition is in line with the Group's strategy aimed at further developing of its mining segment. By acquiring the BCG Companies the Group would gain control over the high quality coal assets, obtain access to the U.S. coking coal consumers, and reinforce its international standing.

The closing of the Agreement took place on May 7, 2009 ("Closing Date"). The purchase price ("Purchase Price") that the Group either has already paid or should pay in a five year term to the Seller under the Agreement constituted $436,414 plus 83,254,149 preferred shares of Mechel OAO plus two contingent payments ("Contingent Payment") less the amount exceeding the BCG Companies' target debt of $132,000. In accordance with the Agreement, by December 18, 2008, the Group remitted to the Seller a series of partial prepayments in the total amount of $436,414. As of Closing Date, the Group transferred 83,254,149 of its preferred shares to the Seller.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The Contingent Payment consists of two parts. The first part of the Contingent Payment includes a Contingent Share Value Right ("CVR"). Any potential CVR cash payment due to the actual total return from the preferred shares being less or equal to the target value of $986,063 will be paid on the fifth anniversary of the Closing Date and will equal the amount by which the target return exceeds the sum of the aggregate market value of the preferred shares and all dividends received. The target return could be increased up to $1,585,000 based on the additional tonnes of proven and probable reserves or measured and indicated resources in excess of 261.6 million tonnes of in-place measured and indicated resources and proven and probable reserves identified until the Closing Date, limited by 196.9 million tonnes discovered during the results of additional geological researches of the reserves of the BCG Companies.

The Group shall be released from its obligations in respect of the Contingent Payment if the market value of the preferred shares plus the cumulative dividends declared to the Seller exceeds $1,783,125 or, on July 7, 2011, 112.5% of the total of the first part of the Contingent Payment and $986,063. The Group has a right to pay the discounted amount of Contingent Payment prior to its maturity. If the Group pays the Contingent Payment at any time within five years from the Closing Date, the first part of the Contingent Payment shall be determined as $598,937. An unconditional and irrevocable guarantee was granted by Mechel Mining OAO to the Seller in respect of this CVR cash payment. The CVR part of the Contingent Payment can be decreased by a maximum of $200,000, which is the limit of identifiable damages caused to the BCG companies by Seller's actions occurred during the pre-closing period, including claims and litigation.

The second part of the Contingent Payment is to be made within five years from the Closing Date and depends on the results of additional geological researches of the reserves of the BCG Companies ("Drilling Program"). Organization and completion of Drilling Program by independent experts is Sellers' responsibility, and it must be fulfilled until July 7, 2011. The amount of the first part of the Contingent Payment will be proportional to the quantity of additional coal reserves and resources of the BCG Companies identified until that date, as compared to those reserves and resources existing at the date of acquisition. Each tonne of the additional coal reserves and resources will be remitted to the Sellers at $3.04 per tonne if the payment occurs on May 7, 2014, and will be discounted in case of earlier repayment. Mechel Mining OAO issued an unconditional and irrevocable guarantee to the Seller in respect of this payment. The guarantee is limited to $1,000,000.

On May 6, 2009, the Group entered into pledge agreements relating to all the outstanding stock and capital membership in the BCG Companies in favor of the Seller. These pledges were made to secure the Contingent Payment, and will be released when the Contingent Payment obligations will have been fulfilled, terminated or expired.

The Group accounted for the acquisition of the BCG Companies under the purchase method of accounting in accordance with ASC 805. The following table summarizes the fair values of the purchase consideration at the Closing Date:

	May 7, 2009
Cash payment	436,414
Mechel OAO preferred shares	496,159
CVR contingent payment	495,234
Drilling Program contingent payment	19,373
Total investment	**1,447,180**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The CVR contingent payment is a residual of estimated target value of the CVR and fair value of Mechel OAO preferred shares transferred. The target value of the CVR was determined by the Group based on an appraisal performed by independent mining engineers as of the acquisition date. The estimation implied the review of all existing evidence for the Seller's opportunity to convert an additional inferred tonnage to proven and probable, or measured and indicated categories to be discovered during the results of Drilling Program and limited by 196.9 million tonnes. The probability for the Seller to convert the additional inferred tonnage to proven and probable, or measured and indicated categories after the completion of Drilling Program was estimated by the independent appraisal at 78.63%. The CVR contingent payment was classified as a long-term liability in accordance with ASC 480 and ASC 815. The present value of the CVR target value as of May 7, 2009 was calculated using the discount rate of 8% per annum and amounted to $991,393. The contingent liability recognized as of the acquisition date amounted to $495,234, and was calculated as the difference between the estimated target value and the preferred shares fair value as of May 7, 2009.

Mechel OAO preferred shares are not marketable (refer to Note 20), and they were appraised by an independent third party using the probability-weighted expected return method. Under this method, the value of the Company's capital is estimated based on an analysis of current and future values for the entire enterprise based on different scenarios. Each scenario determines a common and preferred equity value based on measured cash distributions as of the scenario event date, after considering the rights of both preferred and common equity and any other claims by other capital stakeholders. An appropriate probability was applied to each of the scenarios. The weighted average preferred share value was determined as $5.96 (196 rubles) as of May 7, 2009.

The drilling program contingent payment was determined by the Group based on an appraisal performed by independent mining engineers at acquisition date. The estimation was made in conjunction with the estimation of the CVR contingent payment. As a result of the analysis, that incorporated the independent mining engineers' assumptions about the Seller's successful effort to identify additional mineral reserves and resources as a result of the Drilling Program, additional contingent mineral reserves were estimated at $72,918 and included in the fair value of the BCG Companies' mineral licenses. The Drilling Program contingent payment was appraised applying the same assumptions about the conversion of the inferred tonnage and the agreed rate of $3.04 per tonne as indicated above. It matures on May 7, 2014, and was classified as long-term liability in accordance with ASC 480 and ASC 805 and was discounted using the discount rate of 8%, stated in the Merger 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 present value of the Drilling Program contingent payment as of May 7, 2009 amounted to $19,373.

The Group determined the fair values of the BCG Companies' assets acquired and liabilities assumed for property, plant and equipment, intangible assets, mineral rights, asset retirement obligations, non-pension employees benefits, deferred income taxes and tax contingencies based on independent appraisal. The Group internally determined the fair values for current assets and current and long-term liabilities of the BCG Companies as of May 7, 2009. The results of operations of the BCG Companies are included in the consolidated financial statements from the date of acquisition of control, May 7, 2009. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	May 7, 2009
Cash and cash equivalents	4,908
Other current assets	43,437
Property, plant and equipment	138,396
Mineral licenses	2,171,633
Other non-current assets	3,453
Current liabilities	(111,286)
Long-term liabilities	(93,164)
Deferred income taxes	(710,197)
Fair value of net assets acquired	1,447,180
Total investment	**1,447,180**

The income approach was used in valuing the coal mineral licenses of the BCG Companies. In using the Income approach, the opinion of value was developed using the Multi-Period Excess Earnings Method ("MPEEM"). The MPEEM is a specific application of the discounted cash flow method. The principle behind the MPEEM is that the value of a mineral license is equal to the present value of the incremental after-tax cash flows attributable only to the subject mineral license after deducting contributory asset charges. The principle behind a contributory asset charge is that a mineral license "rents" or "leases" from a hypothetical third party all the assets it requires to produce the cash flows resulting from its development, that each project rents only those assets it needs (including elements of goodwill) and not the ones that it does not need, and that each project pays the owner of the assets a fair return on (and of, when appropriate) the fair value of the rented assets. Thus, any net cash flows remaining after such charges are attributable to the subject asset being valued. The incremental after-tax cash flows attributable to the subject asset are then discounted to their present value.

Both the cost and market approaches were utilized in appraising plant and equipment and intangible assets. For the cost approach, the reproduction/replacement cost was determined recognizing the concept that a prudent investor would pay no more for an asset than the cost to reproduce or replace the asset with an identical or similar unit of equal utility. The market approach focuses on the actions of actual buyers and sellers in the market for similar assets. It was applied when the Group had sufficient detailed information to find comparable sales data in the marketplace.

In accordance with ASC 805, the Group adjusts the contingent liability arising from the contingent consideration arrangements each reporting period, with a corresponding gain or loss reflected in the statement of operations, based on changes in the fair value of the obligation. The Group determined the fair value of Mechel OAO preferred shares as of December 31, 2009 based on an independent appraisal using the same method as of the acquisition date. The weighted average preferred share value was determined as $12.97 (392 Russian rubles) as of December 31, 2009. The estimations of the CVR target value and Drilling Program contingent payment remained unchanged, except for the effects of accretion from the date of the acquisition through December 31, 2009.

The contingent payment as of December 31, 2009 and May 7, 2009 in the amount of $20,369 and $514,607, respectively, is recorded within other long-term liabilities. The change in the fair value of Mechel OAO preferred shares during the post-acquisition period through December 31, 2009 resulted in a $494,238 decrease in the CVR contingent payment, which was recorded as a non-taxable gain in Other income and expense, net in the consolidated financial statements. This gain is a result of the changes resulting from the events after the acquisitions date, primarily because of the significant increase in the value of preferred shares following similar increase in the Mechel OAO common stock quotes, and does not constitute a measurement period adjustment that would require adjustment of the purchase consideration.

The fair value of the CVR contingent payment is closely linked to the fair value of the Mechel OAO preferred shares that are not marketable, success of the Seller's drilling efforts, dividend payments, passage of time and other factors, of which some are beyond the Group's control. The changes in these factors or underlying assumptions could significantly impact the fair value of the CVR contingent payment in the future through the date of its ultimate settlement or extinguishment.

The BCG Companies are included in the Mining segment.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(b) HBL Holding GmbH

On September 26, 2008, the Group acquired 100% of the shares of HBL Holding GmbH ("HBL") for a consideration of $55,855, of which $47,468 paid in cash in 2008 and $8,387 in 2009. HBL integrates twelve service and trading companies in Germany. The acquisition is consistent with Group's program to expand its sales network, enhance and extend range of its services, and enlarge its client base. HBL is included in the Steel segment.

This acquisition was accounted for using the purchase method of accounting. The results of operations of HBL are included in the consolidated financial statements from the date of acquisition of control, September 26, 2008. The excess of the fair value of the net assets acquired over the purchase price has been allocated as a pro rata reduction of $14,308 of the amounts that otherwise would have been assigned to property, plant and equipment, in accordance with ASC 805. The following table summarizes the final fair values of net assets acquired at the date of acquisition of control:

	September 26, 2008
Cash and cash equivalents	32,875
Other current assets	37,739
Property, plant and equipment	35,438
Other non-current assets	45
Current liabilities	(40,746)
Long-term liabilities	(7,384)
Deferred income taxes	(2,112)
Fair value of net assets acquired	55,855
Total investment	**55,855**

(c) Oriel Resources Plc.

On March 26, 2008, the Group entered into a public offer to acquire all of the issued shares of Oriel Resources Plc. ("Oriel"). The offer was extended to any Oriel shares issued or unconditionally allotted and fully paid while the offer remained open for acceptance, including Oriel shares issued pursuant to the exercise of options granted under the Oriel Share Option Scheme, the exercise of Oriel warrants or otherwise. The offer was made on the basis of $2.1986 in cash for each Oriel share. The offer valued the entire issued and to be issued share capital of Oriel at approximately $1.5 billion. The cash consideration payable by Mechel for Oriel was funded using a $1.5 billion loan facility arranged by Royal Bank of Scotland and Merrill Lynch for the purposes of the offer ("Oriel" credit facility).

During the period from April 17 through June 30, 2008, the Group acquired 99.74% of Oriel's shares for $1,461,716 in cash, which includes $2,487 of agency fees and costs to cancel the warrants of $812. From July through October 2008, the Group acquired the remaining 0.26% of Oriel's shares for $5,798 in cash and became an owner of 100% of Oriel's shares for the total of $1,467,514.

Oriel Resources Plc. is a London-based chrome and nickel mining and processing company operating mainly in Kazakhstan and Russia. Oriel's current mining projects include the Voskhod chrome and the Shevchenko nickel projects, both located in north western Kazakhstan. Interlinked with Voskhod is the vertically-integrated Tikhvin ferrochrome smelting plant in Russia, which commenced its production in April 2007.

Current mineral licenses of Oriel expire in 2029 for a chrome deposit and 2017 for a nickel deposit. Based on the current mining program, the Group expects chrome deposit to be depleted before the license expiration date. Consequently, the value assigned to chrome licenses is amortized using the units-of-production method through the end of the estimated proven and probable reserve depletion period. The value of nickel license is not amortized as long as the project is at the exploration stage.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

This acquisition was accounted for using the purchase method of accounting. The excess of the fair value of the net assets acquired over the purchase price has been allocated as a pro rata reduction of $30,587 of the amounts that otherwise would have been assigned to long-lived assets in accordance with the ASC 805. The results of operations of Oriel are included in the consolidated financial statements from the date of acquisition of control, April 17, 2008. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	April 17, 2008
Cash and cash equivalents	27,914
Other current assets	139,664
Property, plant and equipment	359,769
Mineral licenses	1,724,730
Other non-current assets	2,378
Current liabilities	(158,057)
Long-term liabilities	(113,136)
Deferred income taxes	(521,083)
Fair value of net assets acquired	1,462,179
Non-controlling interest share in net assets	(463)
Total investment	**1,461,716**

Oriel is included in the Ferroalloy segment.

(d) Ductil Steel S.A.

On April 8, 2008, the Group acquired 100% of the shares of Ductil Steel S.A. ("Ductil Steel") located in Romania for $224,003 in cash, out of which $23,592 was prepaid in 2007. Ductil Steel is one of the top Romanian producers of wire and wire products. Its principal assets are two production sites: the Otelu Rosu plant producing billets that are used as raw material inputs for the Buzau plant, its second production site. Ductil Steel is included in the Steel segment.

This acquisition was accounted for using the purchase method of accounting. The results of operations of Ductil Steel are included in the consolidated financial statements from the date of acquisition of control, April 8, 2008. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	April 8, 2008
Cash and cash equivalents	2,790
Other current assets	86,396
Property, plant and equipment	113,491
Other non-current assets	5
Current liabilities	(92,615)
Long-term liabilities	(8,093)
Deferred income taxes	(10,661)
Fair value of net assets acquired	91,313
Goodwill	132,690
Total investment	**224,003**

Goodwill of $132,690 arising from the Group's acquisition of Ductil Steel represents expected benefits from the synergies related to wire and wire products trading and strengthening the position in the European market.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(e) Toplofikatsia Rousse

On December 17, 2007, the Group acquired a 49% interest in Toplofikatsia Rousse ("TPP Rousse"), a power plant located in Rousse, Republic of Bulgaria, for $73,539 in cash. Following the approval by the Post-Privatization Control Agency of Bulgaria and Antimonopoly Committee of Bulgaria, Mechel International Holdings GmbH, acquired 49% of the shares from the TPP Rousse's 100% owner, Holding Slovenske elektrarne d.o.o. ("HSE") of Slovenia.

The power plant potential capacity is 400 MW and it has total heat capacity of 554 Gcal/h and a staff of more than 700 employees. As of the date of acquisition, only some of the plant's generators produced electric power, thus the plant's capacity was under-utilized.

The investment is in line with the Group's strategy to develop power segment. Management has an intention, but not a commitment, to increase its interest to a controlling stake in the future.

The purchase of TPP Rousse shares was accounted for using the equity method of accounting and is included within long-term investments in related parties as of December 31, 2007. Property, plant and equipment of TPP Rousse were valued by independent appraisers as of the date of acquisition of its shares. The Group's share in results of operations of TPP Rousse is included in the consolidated financial statements from the date of acquisition of shares, December 17, 2007. The individual assets and liabilities of TPP Rousse are not included in the accompanying consolidated financial statements of the Group as the Group accounts for TPP Rousse as its equity-method investment. The following table summarizes the fair values of net assets of TPP Rousse at the date of acquisition of shares:

	December 17, 2007
Cash and cash equivalents	1,924
Other current assets	9,161
Non-current assets	277
Property, plant and equipment	73,056
Current liabilities	(31,908)
Non-current liabilities	(8,871)
Deferred income taxes	(2,561)
Fair value of net assets acquired	41,078
Share of controlling shareholders in net assets of TPP Rousse	(20,950)
Excess of investment over fair value of net assets acquired	53,411
Total investment	**73,539**

The excess of investment over fair value of net assets of TPP Rousse acquired of $53,411 represents expected benefits from the synergies related to vertical integration of the Group's business and expansion into additional markets for steam coal used to fuel power plants in the European Union.

(f) Temryuk-Sotra

On July 2, 2007, the Group acquired a 100% interest in Temryuk-Sotra, including Souztranzit and Tehnoprodintorg, seaport for $6,254 in cash. The acquisition is in line with Mechel's further developing of its own transport infrastructure. Temryuk-Sotra seaport is located at the Taman shore of the Sea of Azov and is expected to be utilized for primarily coal transportation by small tonnage river-sea type vessels. The competitive advantage of the port of Temryuk is determined by its geographical location, proximity to sea communications, year-round navigation, and available railroad and highway access.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The acquisition of Temryuk-Sotra was accounted for using the purchase method of accounting. The results of operations of Temryuk-Sotra are included in the consolidated financial statements from the date of acquisition of acquisition of control, July 2, 2007. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	July 2, 2007
Cash and cash equivalents	147
Other current assets	1,651
Property, plant and equipment	9,167
Current liabilities	(5,127)
Non-current liabilities	(916)
Deferred income taxes	(1,379)
Fair value of net assets acquired	3,543
Goodwill	2,711
Total investment	**6,254**

Goodwill of $2,711 arising from the Group's acquisition of Temryuk-Sotra represents expected benefits from the synergies related to the reduction in transportation costs. Temryuk-Sotra is included in the Mining segment.

(g) Transkol

On May 29, 2007, the Group acquired a 100% interest in Transkol OOO, a company with local railway access to a railway junction located near Southern Kuzbass Coal Company ("SKCC"), for $7,173 in cash. The acquisition of Transkol is in line with the Group's intention to develop coal production at Erunakovskaya mine, owned by SKCC. The premium paid resulted in a goodwill, none of which will be deductible for income tax purposes. The company is included in the Mining segment.

The acquisition of Transkol was accounted for using the purchase method of accounting. The results of operations of Transkol are included in the consolidated financial statements from the date of control, May 29, 2007. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	May 29, 2007
Cash and cash equivalents	8
Other current assets	277
Property, plant and equipment	1,711
Current liabilities	(217)
Deferred income taxes	(119)
Fair value of net assets acquired	1,660
Goodwill	5,513
Total investment	**7,173**

Goodwill of $5,513 arising from the Group's acquisition of Transkol represents expected benefits from the synergies related to the reduction in costs from the use of local railway access to a railway junction located near SKCC.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(h) Bratsk Ferroalloy Plant

On August 6, 2007, the Group acquired 100% of Bratsk Ferroalloy Plant ("BFP") for $186,862. BFP is a high grade ferrosilicon producer, located in the Irkutsk Region and has advantageous geographical position. The acquisition is in line with the Group strategy of developing its steel and ferroalloys segments, as Mechel's steel subsidiaries consume ferroalloys in its melting operations. An acquisition of ferroalloy plant, in which energy costs are dominant, will enable the Group to gain synergetic effect both due to the plant's consumption of Mechel's own coal and its supplies of ferroalloys for subsequent processing within the Group. BFP is included in the Ferroalloy segment.

The acquisition of BFP was accounted for using the purchase method of accounting. The results of operations of BFP are included in the consolidated financial statements from the date of acquisition of control, August 6, 2007. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	August 6, 2007
Cash and cash equivalents	197
Other current assets	20,747
Property, plant and equipment	75,395
Current liabilities	(1,611)
Non-current liabilities	(9,102)
Deferred income taxes	(13,415)
Fair value of net assets acquired	72,211
Goodwill	114,651
Total investment	**186,862**

Goodwill of $114,651 arising from the Group's acquisition of BFP represents expected benefits from the synergies related to the reduction in production costs through using own ferroalloys in the Group's subsidiaries melting operations.

(i) Kuzbass Power Sales Company

On June 30, 2007, the Group acquired 49% of the common shares of Kuzbass Power Sales Company ("KPSC") at a public auction in addition to 1.2% of the shares acquired by the Group previously for the total $46,401. KPSC is a power distribution company in Siberia, located in the city of Kemerovo. The primary reason for the acquisition of KPSC was the Group's intention to expand the Power segment of Mechel's business by obtaining additional market and established client base for high value added products, such as electric and heat energy, produced by the KPSC power generating facilities.

The acquisition of KPSC was accounted for using the purchase method of accounting. The results of operations of KPSC are included in the consolidated financial statements from the date of acquisition of control, June 30, 2007. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	June 30, 2007
Cash and cash equivalents	8,988
Other current assets	12,714
Other non-current assets	230
Property, plant and equipment	25,631
Current liabilities	(28,470)
Non-current liabilities	(2,706)
Deferred income taxes	(2,955)
Fair value of net assets acquired	13,432
Non-controlling interest share in net assets	(6,682)
Goodwill	39,651
Total investment	**46,401**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

In October and November 2007, the Group acquired an additional 21.83% interest for $40,891. The following table summarizes the fair value of net assets at the date the major block of shares was acquired. KPSC is included in the Power segment.

	October 26, 2007
Fair value of net assets acquired	3,725
Goodwill	37,166
Total investment	**40,891**

Goodwill of $37,166 arising from the Group's acquisition of KPSC represents expected benefits from the synergies related to the reduction in production costs through generating the Group's own electric power, as well as synergies from using its own coal mined in the vicinity of KPSC.

(j) Southern Kuzbass Power Plant

On April 19, 2007, the Group acquired 94.33% of the common shares of Southern Kuzbass Power Plant ("SKPP"), a power generating plant located in the town of Kaltan, Kemerovo Region, at a public auction for $270,809 in cash. The objective of acquiring SKPP is to increase Mechel's performance through producing high value-added electric power using the Group's own steam coal. The acquisition of the new power generating assets is also aimed at developing the power segment of Mechel's business.

The acquisition of SKPP was accounted for using the purchase method of accounting. The results of operations of SKPP are included in the consolidated financial statements from the date of acquisition of control, April 19, 2007. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	April 19, 2007
Cash and cash equivalents	791
Other current assets	10,008
Other non-current assets	325
Property, plant and equipment	160,833
Current liabilities	(4,106)
Non-current liabilities	(7,290)
Deferred income taxes	(24,744)
Fair value of net assets acquired	135,817
Non-controlling interest share in net assets	(7,704)
Goodwill	142,696
Total investment	**270,809**

After the acquisition date and prior to December 31, 2007, the Group acquired additional 3.71% interest for $10,835. The following table summarizes the fair value of net assets at the date the major block of shares was acquired. SKPP is included in the Power segment.

	August 16, 2007
Fair value of net assets acquired	4,884
Goodwill	5,951
Total investment	**10,835**

Goodwill of $148,647 arising from the Group's acquisition of SKPP represents expected benefits from the synergies related to the reduction in production costs through generating the Group's own electric power, as well as synergies from using its own coal mined in the vicinity of SKPP. In addition, the acquisition of SKPP enables the Group to improve self-sufficiency of the mining and steel segments and produce higher value-added products, such as electricity and heat energy.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(k) Yakutugol and Elgaugol

On January 24, 2005, the Group acquired 25% plus one share of Yakutugol, a leading coal producer in the northeast of Russia, for $411,182 in cash at the auction conducted by the Government of Republic Sakha (Yakutia). Yakutugol extracts predominantly coking coal, as well as steam coal in open and underground mines. The company sells most of the output to the Asian Pacific region, primarily Japan, South Korea, and Taiwan.

On October 5, 2007, the Group won the auction conducted by the Russian Federal Fund acting on behalf of the Republic of Sakha, and Russian Railways ("RZD") (collectively, the "Sellers"), and acquired 75% less one share of Yakutugol, 71.21% of Elgaugol (68.86% of the shares was acquired in the auction and 2.35% had been owned by Yakutugol), and the railway real estate complex for a total of $2,337,089 under the Sales and Purchase Agreement. These acquisitions are in line with Mechel's strategy to further develop its mining segment.

The total purchase price of $2,337,089 was allocated based on the underlying Purchase and Sales Agreement fair values of the items purchased as follows: $1,600,279 for 75% less one share of Yakutugol and $736,810 for 68.86% of Elgaugol and the railway real estate complex. Such allocation generally reflects the fair values of the components.

Pursuant to the Purchase and Sales Agreement, the winner was to acquire the ownership of the shares upon 100% payment of the tendered amount. The Group fulfilled its obligations through the payment made of a combination of own cash and borrowed funds, most of which were provided by VTB Bank. Upon completion of the transferring of the ownership and making a respective record in the securities register, Mechel became the legitimate owner of the controlling stakes in the two companies and the railway real estate complex.

The acquisition of 75% less one share of Yakutugol was accounted for using the purchase method of accounting. The results of operations of Yakutugol are included in the consolidated financial statements from the date of acquisition of control, October 19, 2007. The following table summarizes the fair values of net assets acquired at the date of acquisition of control:

	October 19, 2007
Cash and cash equivalents	20,275
Other current assets	174,967
Property, plant and equipment	704,838
Mineral licenses	1,348,861
Other non-current assets	25,007
Current liabilities	(140,287)
Long-term liabilities	(198,701)
Deferred income taxes	(388,032)
Fair value of net assets of Yakutugol	1,546,928
Share in net assets acquired	1,160,196
Goodwill	440,083
Total investment	**1,600,279**

Goodwill of $440,083 arising from the Group's acquisition of Yakutugol represents expected benefits from the synergies related to coal trading as the Group becomes a stronger player in Russia and abroad while building a reliable foundation for the long-term development of the Group's coal mining.

At date of the 75% less one share acquisition of Yakutugol shares, the initial equity investment amounted to $431,825, of which $53,970 represented goodwill embedded in the investment (refer to Note 9).

As further disclosed in Note 21, in 2008, Yakutugol derecognized deferred tax assets of $44,568 arising on the pension liabilities incurred in the prior years through goodwill. The deferred tax assets related to payments made by Yakutugol to the non-state pension fund Almaznaya Osen' and one-time payments made as post-retirement support to its employees, which the Group concluded in 2008 to be non-deductible for tax purposes.

Current mineral licenses of Yakutugol expire in 2014, but based on the provisions of the Russian Subsoil Law their extension through the end of the estimated proven and probable reserve depletion period is considered by management to be reasonably assured. Consequently, the value assigned to mineral licenses includes such reasonably assured license extensions. Yakutugol's mineral licenses are amortized using the units-of-production method through the end of the estimated proven and probable reserve depletion period (2029).

Elgaugol holds the license for the development of the Elga coal deposit, located in the Far Eastern part of the Russian Federation. The objective of acquiring Elgaugol is to obtain access to deposits of high quality coking coal, which lays a solid foundation for long term development of the Mining segment. The acquired railway real estate complex includes the unfinished 60 km section of the railway spur track from Zeisk station of the Far Eastern Railway to the Elga coal deposit with related access roadway. The current license expires in 2020 and is subject to renewal conditioned upon complying with certain commitments and obligations undertaken by Mechel under the Purchase and Sales Agreement and the license requirements.

As part of the auction conditions, Mechel has committed to complete the railway by September 2010. In addition to the construction of the railway, Mechel has to meet certain operating related milestones as follows: (a) complete legal permits for the minefield development by June 2009 (currently pending the final approval by the state authorities); (b) commence construction of the mining plant by November 2009, (approved for extension by the state authorities); (c) complete construction of the mining plant, with the required water-supply system, and commence coal production by October 2010, (d) reach estimated annual coal production of 9 million tonnes by July 2013, and (e) reach estimated annual coal production of 18 million tonnes by July 2018. There are risks that Mechel will not be able to comply with all requirements, particularly with the timely construction of the railway, which will be built over more than one hundred bridges, in the isolated area of the Elgaugol minefield. Failure to meet these requirements could result in the suspension or termination of the license for the development of the Elga coal deposit. In order to avoid incompliance with the license deadlines, the Group has filed an application with the Ministry of Natural Resources and Ecology for amending the terms of the license and extending the deadlines. The Group has significant commitments for the construction of the railway (refer to Note 26). Management believes that as of April 21, 2010, the Group is in compliance with the requirements and commitments set by the license.

In June 2008, Mechel completed the allocation of the purchase price between Elgaugol and the railway property, which was based on the Group's internal expert estimation of fair values of the underlying assets. As a result of the allocation, the Group assigned $346,532 to Elgaugol and the remaining $390,278 to the railway property.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Elgaugol OAO is a Development Stage Entity, which does not meet the definition of a business for accounting purposes, as defined in ASC 805, due to the fact that acquired set of assets is not able, on a standalone basis, to perform normal operations and generate revenue stream. Mechel has accounted for this transaction as an asset acquisition. The following table summarizes the allocation of acquisition costs of $355,408 (which includes $346,532 paid in cash for 68.86% of the shares acquired in the auction and $8,876 related to 2.35% in Elgaugol owned by Yakutugol) to net assets acquired:

	October 24, 2007
Cash and cash equivalents	640
Other assets	420
Mineral licenses	474,620
Current liabilities	(5,974)
Non-current liabilities	(1,334)
Deferred income taxes	(112,964)
Total costs allocated	355,408
Total investment	**355,408**

Yakutugol, Elgaugol and the railway real estate complex are included in the Mining segment.

In 2008, the license for the development of the Elga coal deposit, which had been held by Elgaugol, and the railway real estate complex were transferred to Yakutugol, followed by a subsequent liquidation of Elgaugol.

At the same auction, and as part of the Purchase and Sales Agreement, Mechel acquired additional railway assets for a total of $50,104, of which title over assets valued at $10,032 was disputed in courts between RZD and a third party. As of December 31, 2008, the court proceedings were finalized resulting in the release of the disputable property and its subsequent transfer to the Group. In accordance with the amendment to the Purchase and Sales Agreement dated March 19, 2009, the total amount of additionally acquired assets was decreased to $29,769 based on the results of physical inspection undertaken by Mechel. The title was transferred in 2009.

(l) Exchange of shares

On June 30, 2008, Mechel OAO signed a shares exchange agreement with Mr. Igor V. Zyuzin (the Group's Controlling Shareholder). In accordance with this agreement, the Group exchanged 190,985,726 common shares of Mechel Mining OAO (1.56% of total shares) for 613,624 common shares of Southern Kuzbass Coal Company ("SKCC") (1.70% of total shares). It was accounted for as a transaction between entities under common control and recorded at historical cost.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(m) Goodwill

Balance at December 31, 2006	**45,914**
Acquisition of Yakutugol (Note 4(k)), Mining segment	494,053
Acquisition of Southern Kuzbass Power Plant (Note 4(j)), Power segment	148,647
Acquisition of Bratsk Ferroalloy Plant (Note 4(h)), Ferroalloy segment	114,651
Acquisition of Kuzbass Power Sales Company (Note 4(i)), Power segment	76,817
Acquisition of Transkol (Note 4(g)), Mining segment	5,513
Acquisition of Temryuk-Sotra (Note 4(f)), Mining segment	2,711
Acquisition of Prommet, Steel segment	1,857
Translation difference	24,283
Balance at December 31, 2007	**914,446**
Acquisition of Ductil Steel (Note 4(d)), Steel segment	132,690
Acquisition of non-controlling interest in SUNP, Ferroalloy segment	4,532
Increase in goodwill as a result of derecognition of deferred tax assets related to acquisitions (Note 21)	44,568
Translation difference	(185,792)
Balance at December 31, 2008	**910,444**
Acquisition of EkosPlus, Mining segment	4,533
Translation difference	(20,603)
Balance at December 31, 2009	**894,374**

Goodwill arising on the above acquisitions is not deductible for tax purposes.

(n) Non-controlling interests

The following table summarizes changes in non-controlling interests for the three years ended December 31, 2009:

Balance at December 31, 2006	**163,036**
New acquisitions	5,777
Purchase of the non-controlling interest in existing subsidiaries by the Group	(5,139)
Non-controlling share in subsidiaries' income from continuing operations	116,234
Translation difference	20,615
Balance at December 31, 2007	**300,523**
Purchase of the non-controlling interest in existing subsidiaries by the Group	(36,496)
Non-conrolling share in subsidiaries' income from continuing operations	88,837
Translation difference	(62,015)
Balance at December 31, 2008	**290,849**
Purchase of the non-controlling interest in existing subsidiaries by the Group	(3,368)
New acquisitions	246
Non-controlling share in subsidiaries' income from continuing operations	2,590
Translation difference	(9,349)
Balance at December 31, 2009	**280,968**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

At various dates during 2009, 2008 and 2007, the Group purchased non-controlling interest in the following subsidiaries:

Year ended December 31, 2007:

	Date of acquisition	Non-controlling interest acquired %	Non-controlling interest acquired amount	Cash paid
Southern Kuzbass Coal Company (SKCC)	January-September	0.05%	147	1,269
Chelyabinsk Metallurgical Plant (CMP)	February-April	0.09%	629	635
Izhstal	January-June	0.27%	350	328
Tomusinsk Energo Management (TEM)	March-May	2.08%	327	107
Korshunov Mining Plant (KMP)...........................	January-October	0.02%	11	32
Port Posiet........	February-July	0.16%	20	7
			1,484	**2,378**

Year ended December 31, 2008:

	Date of acquisition	Non-controlling interest acquired %	Non-controlling interest acquired amount	Cash paid
Southern Urals Nickel Plant (SUNP).....................	May-July	4.15%	18,936	31,780
Southern Kuzbass Coal Company (SKCC)............	March-October	1.96%	11,230	13,646
Chelyabinsk Metallurgical Plant (CMP)................	April-August	0.39%	4,211	4,661
Beloretsk Metallurgical Plant (BMP)	January-April	0.01%	871	6
Tomusinsk Energo Management (TEM)................	May	2.80%	527	400
Izhstal	May	0.20%	355	194
Southern Kuzbass Power Plant (SKPP).................	January-March	0.22%	297	658
Tomusinsk Open Pit Mine (TOPM)	March-April	0.06%	45	1
Kuzbass Power Sales Company (KPSC)	January	0.11%	24	–
			36,496	**51,346**

Year ended December 31, 2009:

	Date of acquisition	Non-controlling interest acquired %	Non-controlling interest acquired amount	Cash paid
Southern Kuzbass Coal Company (SKCC)	September-October	0.44%	3,043	11,131
Chelyabinsk Metallurgical Plant (CMP)	April	0.01%	65	–
Mechel Carbon AG........	July-September	9.21%	260	–
Delizia Finance Ltd........	January	10.00%	–	3,000
Luckstone Corporation........	January	10.00%	–	500
Nerungri bank........	January	4.89%	–	–
Morcenter TECK	March	0.83%	–	–
			3,368	**14,631**

On September 11, 2007, Moskoks transferred the 100% interest in its two wholly-owned subsidiaries, holding 19.39% and 19.59% of shares in Moskoks, respectively, to Mechel-Coke, another Group's subsidiary. Due to the dilution of the Group's interest in Moskoks from 98.94% to 97.11%, the non-controlling interest increased by $6,624.

In April and May 2008, the Group acquired 4.15% of common shares of SUNP for $31,780 paid in cash. The acquisition resulted in a goodwill of $4,532.

On different dates from March through October 2008, the Group acquired 1.96% of voting shares of SKCC for $13,646 paid in cash. The purchase of a non-controlling interest in SKCC was accounted for using the purchase method of accounting and was recorded in the consolidated financial statements for the year ended December 31, 2008.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

On different dates from April through August 2008, the Group acquired 0.39% of voting shares of CMP for $4,661 paid in cash. The purchase of a non-controlling interest in CMP was accounted for using the purchase method of accounting and was recorded in the consolidated financial statements for the year ended December 31, 2008.

On different dates from September to October 2009, the Group acquired 0.44% of voting shares of SKCC for $11,131 paid in cash. The purchase of a non-controlling interest in SKCC was accounted for using the purchase method of accounting and was recorded in the consolidated financial statements for the year ended December 31, 2009.

In January 2009, the Group's subsidiary Oriel Resources Plc. acquired the remaining 10.00% of Delizia Finance Ltd. and Luckstone Corporation for $3,000 and $500 paid in cash, respectively, completing the process of consolidation of its Kazahstan assets. The purchase of interests in Delizia Finance Ltd. and Luckstone Corporation was accounted for using the purchase method of accounting and recorded in the consolidated financial statements for the year ended December 31, 2009.

(o) Pro forma condensed consolidated income statement data (unaudited)

The following unaudited pro forma condensed consolidated income statement information for (i) 12 months ended December 31, 2009, gives effect to the business combinations that occurred in 2009, as if they had occurred at the beginning of 2009 and (ii) 12 months ended December 31, 2008, gives effect to the business combinations that occurred in 2009 and 2008, as if they had occurred at the beginning of 2008:

	Year ended December 31, 2009	Year ended December 31, 2008
Revenue, net	5,828,311	10,564,369
Net income	263,843	464,728
Net income per share	0.31	0.85

The business combinations that occurred in 2009 contributed $140,235 to consolidated revenues and $45,335 of net loss to the Group's consolidated net income for the year ended December 31, 2009 from the dates of such acquisitions.

The following unaudited pro forma condensed consolidated income statement information for (i) 12 months ended December 31, 2008, gives effect to the business combinations that occurred in 2008, as if they had occurred at the beginning of 2008 and (ii) 12 months ended December 31, 2007, gives effect to the business combinations that occurred in 2008 and 2007, as if they had occurred at the beginning of 2007:

	Year ended December 31, 2008	Year ended December 31, 2007
Revenue, net	10,237,572	7,977,688
Net income	1,175,444	851,553
Net income per share	2.82	2.05

These unaudited pro forma amounts are provided for informational purposes only and do not purport to present the results of operations of the Group had the transactions assumed therein occurred on or as of the dates indicated, nor is it necessarily indicative of the results of operations, which may be achieved in the future.

The business combinations that occurred in 2008 contributed $297,255 to consolidated revenues and $119,758 of net income to the Group's consolidated net income for the year ended December 31, 2008 from the dates of such acquisitions.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	December 31, 2009	December 31, 2008
Russian ruble bank accounts	38,847	72,648
USD bank accounts	172,782	71,581
Euro bank accounts	18,509	47,776
Bank accounts in other currencies	3,923	5,066
Other	180,635	57,768
Total cash and cash equivalents	**414,696**	**254,839**

As of December 31, 2009, $55,984 included in USD bank accounts were restricted for use in accordance with various guarantees provided by BNP Paribas to the Group's subsidiaries (refer to Note 26), and $359 was restricted for use in accordance with the guarantees provided by the Group's subsidiaries and VTB bank. As of December 31, 2008, $363 included in Russian ruble bank accounts and $76 included in Bank accounts in other currencies were restricted for use in accordance with guarantees provided by VEB and EBRD.

As of December 31, 2009 and 2008, Other cash and cash equivalents included $3,029 and $1,954, respectively, letters of credit entered into by the Group's subsidiaries for the plant, property and equipment acquisition.

As of December 31, 2009 and 2008, short-term ruble-denominated deposits of $174,275 and $25,376, respectively, with an original maturity of less than 90 days were included in Other cash and cash equivalents.

As of December 31, 2008, a promissory note of $27,230 with an original maturity of less than 90 days was included in Other cash and cash equivalents. There was no promissory note as of December 31, 2009.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net are comprised of:

	December 31, 2009	December 31, 2008
Domestic customers	273,537	334,377
Foreign customers	141,550	182,985
Total accounts receivable	415,087	517,362
Less allowance for doubtful accounts	(66,764)	(110,613)
Total accounts receivable, net	**348,323**	**406,749**

The following summarizes the changes in the allowance for doubtful accounts for the years ended December 31:

	2009	2008	2007
Balance at beginning of year	(110,613)	(26,781)	(19,592)
Recovery of allowance (allowance) for doubtful accounts	38,019	(103,632)	(1,411)
Accounts receivable written off, net	(954)	385	(1,180)
Allowance for doubtful accounts of acquired entities	(61)	(1,470)	(9,325)
Translation difference	6,845	20,885	4,727
Balance at end of year	**(66,764)**	**(110,613)**	**(26,781)**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The significant decrease in allowance for doubtful accounts in 2009 is due to an improvement of the collectibility of accounts receivable and increase in sales made on prepayment basis.

The significant increase in allowance for doubtful accounts in 2008 was due to the increased exposure of the Group to losses on its accounts receivable because of the financial crisis. A substantial portion of such increase was earmarked to several customers experiencing liquidity problems. In 2009, most of such customers repaid their debts.

7. INVENTORIES

Inventories are comprised of:

	December 31, 2009	December 31, 2008
Finished goods	575,462	778,219
Raw materials and purchased parts	327,214	411,865
Work-in-process	133,110	175,025
Total inventories	**1,035,786**	**1,365,109**

As of December 31, 2009 and 2008, the write-down of inventories to their net realizable value was $70,714 and $275,736, respectively. The most significant decrease in the write-down of inventories is attributable to the Steel and Ferroalloy segments in the amounts of $117,847 and $74,417, respectively, caused by improved inventory management and lower volumes.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets are comprised of:

	December 31, 2009	December 31, 2008
VAT and other taxes recoverable	247,795	483,872
Prepayments and advances for materials	55,849	48,238
Bank deposits with original maturities over 90 days	89,805	241
Other receivables	28,472	28,796
Short-term loans issued	55,223	593
Promissory notes received	4,204	870
Other current assets	70,387	43,744
Total prepayments and other current assets	**551,735**	**606,354**

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. VAT related to purchase transactions, which is not yet reclaimable against VAT related to sales as of the balance sheet dates, is recognized in the balance sheets on a gross basis, i.e. as other current assets and taxes and social charges payable.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The capitalized origination fees on the Group's loans in the amount of $30,165 and $21,715 were included in Other current assets as of December 31, 2009 and 2008, respectively, and are being amortized using the effective interest method over the loan term. The capitalized origination fees are classified between short-term and long-term assets in a manner consistent with the related debt.

As of December 31, 2009, short-term loans issued included $51,249 of funds transferred by TOPM to Uglemetbank under the asset management agreement that guarantees a rate of return of 10.5% p.a. Uglemetbank used these funds to acquire one-year promissory notes issued by Calridge Ltd., a related party (refer to Note 10). Interest receivable related to this loan in the amount of $4,720 is included in Other current assets.

As of December 31, 2009, Other current assets included $9,451 of prepaid royalties by the BCG Companies, which are recoupable in 2010.

9. LONG-TERM INVESTMENTS

Long-term investments are comprised of:

	December 31, 2009	December 31, 2008
Equity method investments	82,950	79,387
Other related parties	3,194	1,021
Total investments in related parties	**86,144**	**80,408**
Available-for-sale securities	9,118	15,938
Cost method investments	8,972	10,174
Prepayment for the BCG Companies	–	438,623
Other	5,473	8,037
Total other long-term investments	**23,563**	**472,772**
Total long-term investments	**109,707**	**553,180**

(a) Equity method investments

Equity method investments are comprised of:

	Percent voting shares held at		Investment carrying value at	
Investee	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
TPP Rousse (Power segment)	49%	49%	71,364	68,869
Mechel Energy AG (Conares Eagle) (Mining segment)	50%	50%	14	14
TPTU (Mining segment)	40%	40%	4,541	4,274
TRMZ (Mining segment)	25%	25%	2,187	1,855
RIKT (Mining segment)	36%	36%	2,197	2,055
Other (Mining segment)	20-44%	20-39%	2,647	2,320
Total equity method investments			**82,950**	**79,387**

TPP Rousse (Toplofikatsia Rousse) shares are owned by MIH. The core business is generation of electricity and heat for sales in Europe (refer to Note 4(e)).

Mechel Energy AG is a joint venture with U.K. trading partners of the Group that facilitates the Group's sales in Europe. In 2008, Mechel Energy AG ceased to perform active trading operations, distributed all its net assets as dividends to its shareholders and is currently a dormant company.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

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 and its subsidiaries. TRMZ provides repair services to the Group's subsidiaries.

RIKT (Russian-Italian Telephone Company) shares are owned by SKCC and its subsidiaries. The core business is provision of communication services both to the Group's subsidiaries and third parties.

Summarized unaudited financial information on equity method investees as of December 31, 2009 and 2008 and for the years then ended is as follows:

Income data	2009 (unaudited)	2008 (unaudited)
Revenues and other income	98,547	135,807
Operating income	7,824	6,967
Net income	3,572	3,793

Balance sheet data	At December 31, 2009 (unaudited)	At December 31, 2008 (unaudited)
Current assets	72,831	72,986
Non-current assets	84,579	84,969
Current liabilities	81,199	79,542
Non-current liabilities	6,303	12,134

The following table shows movements in the equity method investments:

	Capital investment	Share in net income/(loss) since acquisition	Total
December 31, 2006	**420,273**	**8,572**	**428,845**
Effect of full consolidation of Yakutugol	(428,835)	–	(428,835)
Investment in TPP Rousse	73,539	–	73,539
Other investments	2,161	–	2,161
Translation difference	20,248	–	20,248
Dividends	(4,618)	–	(4,618)
Share in net income	–	**8**	8
December 31, 2007	**82,768**	**8,580**	**91,348**
Investments	207	–	207
Translation difference	(6,316)	–	(6,316)
Dividends	(6,569)	–	(6,569)
Share in net income	–	**717**	717
December 31, 2008	**70,090**	**9,297**	**79,387**
Translation difference	2,374	–	2,374
Dividends	(11)	–	(11)
Share in net income	–	**1,200**	1,200
December 31, 2009	**72,453**	**10,497**	**82,950**

During the years ended December 31, 2009, 2008 and 2007, the Group received cash dividends of $11, $6,569 and $4,618, respectively.

(b) Cost method investments

Cost method investments represent investments in equity securities of various Russian companies, where the Group has less than a 20% equity interest and no significant influence. As shares of those Russian companies are not publicly traded, their market value is not available and the investment is recorded at cost.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The investments were not evaluated for impairment because the Group did not identify any events or changes in circumstances that may have a significant effect on the fair value of these investments.

(c) Available-for-sale securities

Investments in available-for-sale securities were as follows as of December 31, 2009:

	Cost	Fair value	Unrealized gains	Unrealized losses
Equity securities	14,892	9,118	–	(5,774)
Total available-for-sale securities	**14,892**	**9,118**	**–**	**(5,774)**

Investments in available-for-sale securities were as follows as of December 31, 2008:

	Cost	Fair value	Unrealized gains	Unrealized losses
Equity securities	16,534	15,938	2,560	(3,156)
Total available-for-sale securities	**16,534**	**15,938**	**2,560**	**(3,156)**

As of December 31, 2009 and 2008, available-for-sale securities represented investments into equity securities of well-established Russian energy companies.

(d) Prepayment for the BCG Companies

As of December 31, 2008, the amount of $438,623 represented total advance payments made by the Group to acquire the BCG Companies of which $279,058 was not refundable as of that date. In 2009, the amount of $436,414 was included in the total amount of consideration paid as disclosed in Note 4(a) and transaction costs of $2,209 were expensed.

10. RELATED PARTIES

During the three years ended December 31, 2009, the Group had the following transactions and current balances in settlement with related parties:

	2009				Balances at December 31, 2009		
	Purchases	Sales	Other gain/loss	Financing provided (received), net	Receivable from	Payable to	Total outstanding, net
Calridge	–	–	822	16,449	5,043	–	5,043
Estar Group	126,645	66,209	–	–	92,178	(11,749)	80,429
Laminorul	1,442	5,356	–	–	6,824	–	6,824
Mechel Fund	–	14	53	–	–	–	–
RIKT	173	–	–	–	1	(17)	(16)
TPTU	1,977	14	–	–	–	(67)	(67)
TRMZ	6,114	668	–	–	341	(1,664)	(1,323)
TPP Rousse	–	43,782	–	–	5,542	–	5,542
Uglemetbank	766	214	9,506	113,694	–	–	–
Other	256	5	94	–	1,002	(3)	999
Total	**137,373**	**116,262**	**10,475**	**130,143**	**110,931**	**(13,500)**	**97,431**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

	2008				Balances at December 31, 2008		
	Purchases	Sales	Other gain/loss	Financing provided (received), net	Receivable from	Payable to	Total outstanding, net
Calridge	1,508	–	–	(114,236)	2,382	–	2,382
GPU	8,342	2,925	–	–	–	–	–
Mechel Energy AG	–	2,988	–	–	–	–	–
Mechel Fund	–	–	–	11,386	–	–	–
RIKT	246	–	–	–	–	(14)	(14)
TPP Rousse	–	64,783	–	–	19,755	–	19,755
TPTU	4,346	18	–	–	18	(210)	(192)
TRMZ	8,490	852	–	–	16	(1,364)	(1,348)
Uglemetbank	–	–	–	72,130	67,907	–	67,907
Other	10	125	–	–	–	–	–
Total	**22,942**	**71,691**	–	**(30,720)**	**90,078**	**(1,588)**	**88,490**

	2007				Balances at December 31, 2007		
	Purchases	Sales	Other gain/loss	Financing provided (received), net	Receivable from	Payable to	Total outstanding, net
GPU	4,752	3,206	–	–	601	(1,757)	(1,156)
Mechel Energy AG	301	102,619	–	–	2,881	–	2,881
RIKT	214	4	–	–	10	(30)	(20)
TPP Rousse	–	1,276	–	–	1,303	–	1,303
TPTU	4,570	169	–	–	21	(483)	(462)
TRMZ	6,072	917	–	–	172	(1,189)	(1,017)
Yakutugol	141,319	1,859	–	–	–	–	–
Other	–	6	–	–	–	(137)	(137)
Total	**157,228**	**110,056**	–	**–**	**4,988**	**(3,596)**	**1,392**

(a) Mechel Energy AG

Mechel Energy AG, in which the Group owns 50% of its ordinary shares, purchased coal from the Group during the years ended December 31, 2008 and 2007 in the amount of $2,988 and $102,619, respectively. Sales to Mechel Energy AG were made on market terms with average margin attributable to coal sales. In 2008, Mechel Energy AG ceased to perform active trading operations, distributed all its net assets as dividends to its shareholders and is currently a dormant company, refer to the Note 9(a).

(b) Tomusinskiy Transportation Management Center (TPTU)

The Group subsidiaries own 40% of the ordinary shares in TPTU, which provides transportation services. During the years ended December 31, 2009, 2008 and 2007, the Group purchased transportation services in the amount of $1,977, $4,346 and $4,570, respectively.

(c) Tomusinskiy Auto Repair Shop (TRMZ)

The Group subsidiaries own 25% of the ordinary shares in TRMZ, which provides auto repair services. During the years ended December 31, 2009, 2008 and 2007, the Group purchased repair services in the amount of $6,114, $8,490 and $6,072, respectively.

(d) Yakutugol

For the period from January 24, 2005 through October 19, 2007, the Group owned 25% plus one share of the ordinary shares of Yakutugol, which provides the Group with coal. Since October 19, 2007, the Group has owned 100% in Yakutugol. During the period from January 1, 2007 through October 19, 2007 purchases from Yakutugol amounted to $141,319. The Group's sales of services and auxiliary materials to Yakutugol amounted to $1,859.

(e) Calridge Ltd.

Calridge Ltd. is a company wholly owned by the Controlling Shareholder. On June 30, 2008, the Justice family entered into the Option Agreement to sell 100% of capital stock or membership interests of Bluestone Industries Inc. Under the Option Agreement, Calridge Ltd. paid $100,000 in cash as a prepayment on July 3, 2008. In accordance with the Assignment Agreement dated August 19, 2008, Calridge Ltd. assigned to MIH all the rights, title and interest in and to the Option Agreement for the consideration of $100,000 plus accrued interest of $1,459 that was repaid by MIH by October 2008.

During the year ended December 31, 2008, the Group drew down loans from Calridge Ltd. in the amount of $16,600, which were fully repaid as of December 31, 2008, and issued loans to Calridge Ltd. in the amount of $2,364. The net financing provided by Calridge Ltd. to the Group amounted to $114,236.

During the year ended December 31, 2009, the Group issued loans to Calridge Ltd. in the amount of $16,449, which was fully repaid as of December 31, 2009. Interest income received from these loans issued comprised $822 in 2009.

During 2009 and 2008, the Group transferred cash under the asset management agreement in the amount $54,807 and $52,756, respectively, to Uglemetbank. Uglemetbank further used these funds to acquire promissory notes issued by Calridge Ltd. bearing interest at 8.6-14.5% p.a., held by the Group or under the asset management agreement with Uglemetbank.

The outstanding amounts of Calridge Ltd. promissory notes as of December 31, 2009 and 2008 were $59,030 and $52,756, respectively. Whereas, as discussed in Note 10(i), Uglemetbank was considered as related party to the Group as of December 31, 2008 but not as of December 31, 2009, $51,875 of such promissory notes held by the Group in the Uglemetbank trust accounts was included in the short-term loans issued to related parties as of December 31, 2009, $4,863 and $2,292 of other balances with Calridge Ltd. within receivables from related parties and long-term investments in related parties, respectively (refer to Note 8 and Note 9). As of December 31, 2008, the promissory notes were included in the short-term investments in related parties in the whole amount.

In January and February 2010, Calridge Ltd. has settled the whole amount of its outstanding promissory notes as of December 31, 2009 to Uglemetbank, and Uglemetbank has paid the total amount of $59,030 to the Group.

(f) Toplofikatsia Rousse

During the years ended December 31, 2009 and 2008 and 2007, the Group's sales to TPP Rousse amounted to $43,782, $64,783 and $1,276, respectively, and were made on market terms with average margin attributable to coal sales. As of December 31, 2009, 2008 and 2007, the Group had accounts receivables from TPP Rousse in the amount of $5,542, $19,755 and $1,303, respectively.

(g) Mining and Engineering Management Company

Prior to June 2008, the CEO of Mining and Engineering Management Company ("GPU") was a close relative to the management of one of the Group's subsidiaries. Effective June 2008, GPU has not been treated as a related party since the related person is no longer with the Group.

During the years ended December 31, 2008 and 2007, the Group purchased services on mine construction for $8,342 and $4,752, respectively, $5,418 and $490 of which were capitalized. The Group's sales of construction materials to GPU amounted to $2,925 and $3,206, respectively.

(i) Uglemetbank

In the period from June 30, 2008 through November 28, 2009, the Group participated in the board of directors of Uglemetbank. In addition, together with its related party (see Note 10(j) below), the Group held a significant ownership interest therein from November 19, 2008 through September 18, 2009. The Group's ownership interest in Uglemetbank was 0% and 18.98% as of December 31, 2009 and 2008, respectively. Uglemetbank is a middle size regional bank, which provides mostly cash settlement services for the Group.

Cash held in Uglemetbank was $130,435 as of December 31, 2008. During the period from June 30, 2008 through December 31, 2008, the Group acquired promissory notes from Uglemetbank in the amount of $5,888, placed cash on deposit at Uglemetbank in the amount of $13,486 and transferred $52,756 under the asset management agreement.

During the period from January 1, 2009 through November 28, 2009, the Group acquired promissory notes from Uglemetbank in the amount of $58,887 bearing interest at 9-9.2% p.a. In addition, the Group provided funds under the asset management agreement to Uglemetbank in the amount of $54,807 (refer to Note 10(e)). The total amount of income received under the asset management agreement was $9,506 in 2009.

(j) Mechel Fund

Mechel Fund (earlier "Penfosib") is a non-governmental pension fund which provides pension insurance to the Group's employees, who are members of pension plans. The Group's pension and postretirement benefits, including those funded through Mechel Fund, are disclosed in Note 18. In 2008, the Group's subsidiaries made founder contributions to Mechel Fund in the total amount of $17,501 (refer to Note 24).

During 2008, Mechel Fund provided to the Group's subsidiaries short-term ruble-denominated loans in the amount of $6,115 bearing interest at 8.8% p.a. The loans and related interest were fully repaid by December 31, 2008.

In June 2009, the Group sold its interest of 18.98% in Uglemetbank to Mechel Fund for $2,343 paid in cash, and Mechel Fund increased its share in Uglemetbank up to 97.87%.

In September 2009, the Group recalled its representatives from the Mechel Fund Council, formally severed all links to Mechel Fund as a founding party and refrained from participation in the operating management of Mechel Fund. Consequently, effective from September 18, 2009, the Group does not consider Mechel Fund as its related party.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(k) Transactions with the Controlling Shareholder

As described in Note 4(l), on June 30, 2008, Mechel OAO acquired 613,624 ordinary shares of SKCC (1.70%) from Mr. Igor V. Zyuzin in exchange for 190,985,726 ordinary shares, or 1.56%, of Mechel Mining OAO. The fair value of the exchanged share packages was estimated based on the available market quotes of the shares involved and considered to be equal. The exchange was accounted for as a transaction between entities under common control and recorded at historical cost.

(l) Transactions with Estar Group Companies

In the second half of 2009, the Group received an opportunity granted by Estar Group management to influence sales and operating policies through the representation in the board of directors, management and other arrangements. The companies involved into the transactions with the Group included: Volga Fest, Rostov Electrometallurgical Plant (REP), Vostochnaya Mine, Experimental TES (ETES), Zlatoust Metallurgical Plant (ZMP), Guryevsk Metallurgical Plant (GMP), Volgograd Small Diameter Pipe Plant (VSDPP), and Engels Pipe Plant (EPP).

All these companies were under the bankruptcy proceedings since the second half of 2009, which were ceased through the amicable agreements among the parties concerned either at the end of 2009 (Vostochnaya Mine, VSDPP) or in the first quarter of 2010 (Volga Fest, REP, ETES, GMP). ZMP and EPP have not terminated their bankruptcy proceedings as of April 21, 2010.

During the second half of 2009, Estar Group sales and purchases to the Group amounted to $66,209 and $126,645, respectively, and were made on the market terms with the average margin attributable to the respective products sales. As of December 31, 2009, the Group had advances paid to Estar Group in the amount of $42,997, accounts receivable from Estar Group in the amount of $49,181, accounts payable to Estar Group in the amount of $11,749. Inventories purchased from Estar Group amounted to $66,078 as of December 31, 2009.

(m) Laminorul S.A.

In October 2009, the Group obtained an opportunity to influence sales and operating policies of Laminorul S.A., a steel company located in Romania, by appointment of its representatives to the Administrative Council. The Group entered into agreement for materials processing with Laminorul S.A. in June 2009. During the period from October 2009 through December 31, 2009, the Group's sales to Laminorul S.A. amounted to $5,356, the Group's purchases of materials processing services from Laminorul S.A. amounted to $1,442, and were made on the market terms with the average margin attributable to the processing services sales. As of December 31, 2009, the balances of accounts receivable from Laminorul S.A. equaled to $6,824. The Group acquired a 90.9% ownership interest in Laminorul S.A. in February 2010 (refer to Note 27).

11. INTANGIBLE ASSETS, NET

Identifiable intangible assets, net are comprised of:

	December 31, 2009	December 31, 2008
Intangible assets with determinable lives:		
Energy license	1,925	1,894
Software	6,761	3,868
Other	2,184	1,194
Total intangible assets	**10,870**	**6,956**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net are comprised of:

	December 31, 2009	December 31, 2008
Land improvements	112,240	105,658
Buildings	1,221,736	1,152,271
Transfer devices	131,871	106,154
Operating machinery and equipment	1,957,548	1,894,359
Transportation equipment and vehicles	333,013	329,933
Tools, furniture, fixtures and other	189,227	152,926
	3,945,635	3,741,301
Less accumulated depreciation	(1,274,734)	(1,025,325)
Operating property, plant and equipment, net	2,670,901	2,715,976
Mining plant and equipment	502,156	385,799
Less accumulated depletion	(59,615)	(48,443)
Mining plant and equipment, net	442,541	337,356
Construction-in-progress	1,347,063	1,224,509
Property, plant and equipment, net	**4,460,505**	**4,277,841**

Included within construction-in-progress are advances to suppliers of equipment of $174,511 and $200,318 as of December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, the Group incurred interest expenses of $582,346 and $348,915, respectively, of which interest capitalized in the cost of property, plant and equipment was $87,252 and $34,745, respectively. The depreciation charge amounted to $321,117 and $360,586 for the years ended December 31, 2009 and 2008, respectively.

Mining plant and equipment, net included mining construction in progress in the amount of $79,342 and $162,011 as of December 31, 2009 and 2008, respectively.

In 2009, the Group decided to abandon and dispose of certain production equipment as a result of changes in its production strategy. As of December 31, 2009, the carrying value of such equipment amounted to $20,940 and was written off in full, out of which $3,496, $1,669 and $15,775 related to the Mining, Steel and Ferroalloy segments, respectively.

13. MINERAL LICENSES, NET

Mineral licenses, net are comprised of the following:

	December 31, 2009	December 31, 2008
Coal deposits	3,909,010	1,786,675
Chrome deposits	1,389,233	1,717,991
Iron ore deposits	72,836	75,311
Nickel deposits	37,137	39,390
Limestone deposits	2,863	2,947
Quartzite deposits	1,779	1,007
Mineral licenses before depletion	5,412,858	3,623,321
Accumulated depletion	(279,753)	(192,679)
Mineral licenses, net	**5,133,105**	**3,430,642**

Most of existing mineral licenses were recorded upon acquisition of mining and ferroalloy subsidiaries. Fair values of mineral licenses pertaining to the appraised underlying mineral assets at the date of acquisition were determined by the Group based on appraisals performed by independent mining engineers for each acquisition date. 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. No residual value is assumed in the mineral license valuation.

As described in Note 4(a) above, on May 7, 2009, the Group acquired control over the BCG Companies. The BCG Companies are coal producers located in the United States, which possess and lease coking coal reserves, coal mines and processing plants. The total value allocated to the cost of the BCG Companies' coal mineral licenses as of the date of acquisition amounted to $2,171,633.

As described in Note 4(c) above, during the year ended December 31, 2008, the Group acquired 100% of Oriel's shares. Oriel holds mining licenses for a chrome deposit and a nickel deposit in Kazakhstan. The total value allocated to the cost of Oriel's chrome and nickel mineral licenses at the date of acquisition amounted to $1,717,040 and $7,690, respectively.

To determine the value of the mineral licenses as of December 31, 2009, the Group used quantities of underlying mineral assets, production data and other factors, including economic viability and any new exploration data.

The Group's mining segment production activities are located within Russia, Kazakhstan and the United States. The Group's mineral reserves and deposits are situated on the land belonging to government and regional authorities. In Russia, 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 2027, with the most significant licenses expiring between 2012 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. In Kazakhstan, the Group has mining licenses for the period ended in 2029 for a chrome deposit and license expiring in 2017 for a nickel deposit. In the United States, the Group controls coal reserves and resources through a combination of lease and ownership. The leases contain percentage royalties, which vary from 3% to 8.5% and depend on coal selling prices and most of these leases contain minimums recoupable from the future production. The leases expire over the period from 2010 to 2018, and they generally contain extension clauses.

The mineral licenses validity is subject to meeting different license requirements, which are currently fulfilled by the Group, except for the requirements related to two mineral licenses owned by SKCC. The Group failed to commence coal production at Raspadsk license area (New-Olzherassk underground mine) and Sorokinsk license area (Krasnogorsk open pit) in 2009 due to unfavorable economic conditions, but expects to commence such production in 2011. During 2009, the Group applied to the local authorities for the changes in the coal production commencement terms stated in these licenses. The Group believes that the probability to revoke these licenses is remote.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

14. OTHER NON-CURRENT ASSETS

Other non-current assets are comprised of the following:

	December 31, 2009	December 31, 2008
Advanced payments to non-state pension funds	19,259	28,313
Capitalized loan origination fees	40,844	23,273
Other	7,191	6,258
Total other non-current assets	**67,294**	**57,844**

As of December 31, 2009 and 2008, advanced payments of $19,259 and $28,313 were made by Yakutugol in terms of agreed pension benefit program to Almaznaya Osen' and Mechel Fund non-state pension funds (refer to Note 18).

As of December 31, 2009 and 2008, the amounts of $40,844 and $23,273, respectively, related to capitalized origination fees on bank loans that were recorded as a non-current asset, and are being amortized using the effective interest method over the loan term (refer to Note 15). The capitalized origination fees are classified between short-term and long-term assets in a manner consistent with the related debt.

15. DEBT

	December 31, 2009		December 31, 2008	
Short-term borrowings and current portion of long-term debt including debt with loan covenant violations:	**Amount**	**Rate p.a., %**	**Amount**	**Rate p.a., %**
Russian ruble-denominated:				
Banks and financial institutions	493,271	9.0-16.5	1,071,269	8.0-20.2
Bonds issue	165,321	8.40	4,016	5.5
Corporate lenders	2,279	0	9,689	0-12.0
Total	660,871		1,084,974	
U.S. dollar-denominated:				
Banks and financial institutions	211,277	0.0-9.5	1,742,783	1.8-17.5
Corporate lenders	450	6.0	–	
Total	211,727		1,742,783	
Euro-denominated:				
Banks and financial institutions	85,584	1.73-8.4	99,895	3.5-14.3
Total	85,584		99,895	
Romanian lei-denominated:				
Banks and financial institutions	5,750	5.5-12.4	13,616	16.9
Total	5,750		13,616	
Total short-term borrowings	963,932		2,941,268	
Current portion of long-term debt including debt of $2,158,891 with loan covenant violations in 2008	959,117		2,208,147	
Total short-term borrowings and current portion of long-term debt including debt with loan covenant violations	**1,923,049**		**5,149,415**	

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The weighted average interest rate of the ruble-denominated short-term borrowings as of December 31, 2009 and 2008 was 14.11% and 8.56% p.a., respectively. The weighted average interest rate of the U.S. dollar-denominated short-term borrowings as of December 31, 2009 and 2008 was 4.04% and 4.68% p.a., respectively. The weighted average interest rate of the Euro-denominated short-term borrowings as of December 31, 2009 and 2008 was 5.18% and 5.50% p.a., respectively. The weighted average interest rate of the Romanian lei-denominated short-term borrowings as of December 31, 2009 and 2008 was 8.11% and 16.85% p.a., respectively.

	December 31, 2009		December 31, 2008	
Long-term debt, net of current portion:	**Amount**	**Rate p.a., %**	**Amount**	**Rate p.a., %**
Russian ruble-denominated:				
Banks and financial institutions	776,885	10.6-18.2	35,304	9.8-10.4
Bonds issue	487,265	12.5-19.0	169,512	8.4
Corporate lenders	310	0.0	132	5.6
Total	1,264,460		204,948	
U.S. dollar-denominated:				
Syndicated loan	2,348,996	7.23-8.24	1,915,750	5.1-7.3
Banks and financial institutions	1,170,945	3.25-14.0	141,689	5.0-9.1
Corporate lenders			3	12.0
Total	3,519,941		2,057,442	
Euro-denominated:				
Banks and financial institutions	224,692	1.25-8.2	165,573	3.5-7.2
Corporate lenders	358	0.0	–	
Total	225,050		165,573	
Romanian lei-denominated:				
Banks and financial institutions	24,124	12.8-15.2	–	–
Total	24,124		–	
Total long-term obligations	5,033,575		2,427,963	
Less: current portion	(959,117)		(2,208,147)	
Total long-term debt, net of current portion	**4,074,458**		**219,816**	

The weighted average interest rate of the ruble-denominated long-term borrowings as of December 31, 2009 and 2008 was 13.91% and 10.21% p.a., respectively. The weighted average interest rate of the U.S. dollar-denominated long-term borrowings as of December 31, 2009 and 2008 was 8.03% and 5.11% p.a., respectively. The weighted average interest rate of the Euro-denominated long-term borrowings as of December 31, 2009 and 2008 was 4.94% and 5.59% p.a., respectively. The weighted average interest rate of the Romanian lei-denominated long-term borrowings as of December 31, 2009 was 13.54%.

Aggregate scheduled maturities of the debt outstanding as of December 31, 2009, are as follows:

Payable by:	
2010 (current portion)	1,923,049
2011	1,033,370
2012	1,561,773
2013	407,336
Thereafter	1,071,979
Total	**5,997,507**

"Yakutugol" credit facility

In December 2007, the Group executed a $2,000,000 syndicated loan arrangement for refinancing the acquisition of its subsidiaries, Yakutugol and Elgaugol ("Yakutugol" credit facility). The Acquisition Refinancing Package was comprised of Secured 5-year Pre-Export Finance Facility totaling $1,700,000 (85%) and 3-year Term Loan Facility totaling $300,000 (15%), jointly arranged by BNP Paribas, ABN AMRO, Calyon, Natixis, Sumitomo Mitsui Banking Corporation Europe Limited, Société Générale Corporate & Investment Banking and Commerzbank AG. Loan funds were credited to the accounts of CMP, SKCC and SUNP for the amounts of $1,340,000, $500,000 and $160,000, respectively.

In accordance with the provisions of the syndicated loan agreement the borrowing was provided in the form of two facilities:

- Facility A of $1,700,000 bearing interest at LIBOR plus 1.5% p.a.;
- Facility B of $300,000 bearing interest at LIBOR plus 2.25% p.a.

In July 2009, the Group signed an agreement with the syndicate of banks to refinance its "Yakutugol" credit facility in the amount of $1,600,000 at LIBOR plus 6% p.a., which provides for equal monthly installments from September 2009 through December 2012. Under the agreement the syndicate of banks changed the Facility Agreement Agent from BNP Paribas to Commerzbank.

The syndicated long-term "Yakutugol" credit facility in the amount of $1,348,996 as of December 31, 2009, includes a current portion of $449,665, which is due before December 31, 2010, and $899,331 payable in subsequent years.

Guarantees under the "Yakutugol" credit facility are jointly issued by Mechel Finance, Mechel OAO, Yakutugol, MTH and Mechel Trading Ltd., Mechel Mining OAO, Mechel-Coke and Oriel for the total amount of $1,348,996. In addition, the loan is secured by 2,020,992 pledged common shares of Yakutugol (50% less one share of common shares); 7,727,942 pledged common shares of SKCC (21.4% less one share of common shares); 676,711 pledged common shares of CMP (21.4% of common shares).

"Oriel" facility agreement

In March 2008, OAO Mechel executed a $1,500,000 credit facility agreement with the Royal Bank of Scotland for financing the acquisition of Oriel ("Oriel" credit facility). The loan bore a variable interest at the rate of LIBOR plus 2.6% p.a. (during the first six months after the date of agreement) and 2.9% p.a. (thereafter) and was due on July 15, 2009.

Guarantees under the facility agreement were jointly issued by Mechel Finance, Yakutugol, MTH and Mechel Trading Ltd. for the total amount of $1,500,000.

In July 2009, the Group signed an agreement with the syndicate of banks with Commerzbank as facility Agreement Agent to refinance its short-term "Oriel" credit facility in the amount of $1,000,000 at LIBOR plus 7% p.a., which provides for equal monthly installments from July 2010 through December 2012. The remainder of "Oriel" credit facility of $500,000 was repaid through the funds raised through the Gazprombank three-year loan facility described below.

"Oriel" credit facility in the amount of $1,000,000, includes a current portion of $200,000, which is due before December 31, 2010, and $800,000 payable in subsequent years.

Guarantees under the "Oriel" credit facility are jointly issued by Mechel Finance, Mechel OAO, Yakutugol, MTH and Mechel Trading Ltd., Mechel Mining OAO, Mechel-Coke and Oriel for the total amount of $1,000,000. 4,910,283 pledged common shares of SKCC (13.6% of common shares); 429,977 pledged common shares of CMP (13.6% of common shares); 483,785,849 pledged common shares of Oriel (50% of common shares).

Gazprombank facility agreement

In February 2009, the Group signed a $1,000,000 U.S. dollar-denominated credit facility agreement with Gazprombank bearing interest at 14% p.a. The loan is repayable in quarterly installments in 2010-2012. The indebtedness under the credit facility is secured by the pledge of 1,414,696 common shares of Yakutugol (35% of total common shares) and 12,638,226 common shares of SKCC (35% of total common shares).

In February 2010, the Group signed a prolongation agreement with Gazprombank. According to this prolongation agreement, the credit facility including the short-term portion of $480,000 falling due in 2010, was rescheduled to be repaid in 2013-2015 and the interest rate is reduced from 14% to 9% p.a. Consequently, the whole amount of the Gazprombank debt outstanding as of December 31, 2009 was classified as long-term.

Bonds

On June 21, 2006, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($184,877). The bonds were issued at 100% par value. Interest is payable every 3 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 8.4% p.a. The interest rate for the second to the eighth coupon periods is set as equal to that of the first period. The interest rate for the ninth to the fourteenth coupon periods is set by the Group and made public 10 days before the respective coupon period starts. The bondholders have an option to demand repayment of the bonds at par value starting June 21, 2010. The obligatory redemption date is June 12, 2013. Bonds are secured by a guarantee issued by MTH. The aggregate amount of the guarantee issued is 5 billion Russian rubles ($165,321). The costs related to the issuance of bonds in the amount of $739 were capitalized and are amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2009 was $165,321 and is classified as current debt.

On July 30, 2009, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($159,154). The bonds were issued at 100% par value. Interest is payable every 3 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 19% p.a. The interest rate for the second to the twelve coupon periods is set as equal to that of the first period. The interest rate for the thirteenth to the twenty-eighth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The bondholders have an option to demand repayment of the bonds at par value starting July 30, 2012. The obligatory redemption date is July 21, 2016. Bonds are secured by a guarantee issued by Yakutugol. The aggregate amount of the guarantee issued is 5 billion Russian rubles ($165,321). The costs related to the issuance of bonds in the amount of $1,844 were capitalized and are amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2009 was $165,321 and is classified as long-term debt.

On October 20, 2009, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($170,327). The bonds were issued at 100% par value. Interest is payable every 3 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 12.5% p.a. The interest rate for the second to the twelfth coupon periods is set as equal to that of the first period. The interest rate for the thirteenth to the thirty-sixth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The bondholders have an option to demand repayment of the bonds at par value starting October 18, 2012. The obligatory redemption date is October 9, 2018. Bonds are secured by a guarantee issued by Yakutugol. The aggregate amount of the guarantee issued is 5 billion Russian rubles ($165,321). The costs related to the issuance of bonds in the amount of $703 were capitalized and are amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2009 was $165,321 and is classified as long-term debt.

On November 13, 2009, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($174,398). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 12.5% p.a. The interest rate for the second to the fourth coupon periods is set as equal to that of the first period. The interest rate for the fifth and sixth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The bondholders have an option to demand repayment of the bonds at par value starting November 11, 2011. The obligatory redemption date is November 09, 2012. The costs related to the issuance of bonds in the amount of $643 were capitalized and are amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2009 was $156,623 and is classified as long-term debt. The decrease in the balance of bonds as of December 31, 2009 is due to acquisition of bonds in the total amount of $8,698 by Group's subsidiaries.

Other loans

Other significant debt provided by bank financing included credit line facilities from BNP Paribas, Gazprombank, VTB, UniCredit Bank, Commerzbank, ING Bank, Raiffeisen Bank, ABN AMRO, Fortis Bank, Sberbank, Promsvyazbank, Uralsib and other institutions. The unused portion under all credit facilities as of December 31, 2009 and 2008 was $491,369 and $684,940, respectively. As of December 31, 2009, the Group's credit facilities provided aggregated borrowing capacity of $6,488,876, of which $1,983,247 expires within a year.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The outstanding balances of short-term and long-term debt by denominated currencies as of December 31, 2009 and 2008 were as follows:

Short-term and long-term debt:	December 31, 2009 Amount	December 31, 2008 Amount
Russian ruble-denominated:		
Bonds	652,586	169,512
VTB	495,963	510,544
Gazprombank	360,400	272,007
Sberbank	281,746	112,320
Bank of Moscow	56,209	–
Moscow Credit Bank	46,290	–
Raiffeisenbank	18,979	19,537
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	9,841	10,130
Uralsib	–	72,157
Alfa-bank	–	104,321
Other	3,318	19,394
Total	1,925,332	1,289,922
U.S. dollar-denominated:		
“Yakutugol” credit facility	1,348,996	1,915,750
“Oriel” credit facility	1,000,000	1,500,000
Gazprombank	1,035,000	57,800
Uralsib	73,000	25,000
ING	52,632	7,281
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	68,453	40,000
Raiffeisenbank	12,000	–
EDB, HBV, WestLB AG	–	84,750
Alfa-bank	–	45,000
BNP Paribas	–	44,351
Other	141,586	80,293
Total	3,731,667	3,800,225
Euro-denominated:		
Uralsib	71,730	–
Fortis Bank	67,262	35,347
VTB	29,256	7,719
ING	26,291	18,421
Commerzbank	24,615	35,263
ABN AMRO	22,167	–
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	44,790	23,408
Raiffeisenbank	8,075	–
Gazprombank	–	34,520
BNP Paribas	378	39,834
Other	16,070	70,956
Total	310,634	265,468
Romanian lei-denominated:		
Raiffeisenbank	20,943	–
Other	8,931	13,616
Total	29,874	13,616
Total short-term and long-term debt	**5,997,507**	**5,369,231**

In 2009 and 2008, Gazprombank provided long-term and short-term ruble and U.S. dollar-denominated loans to CMP, MTH, Mechel Service bearing interest at 8.5-19.0 % p.a. The outstanding balances as of December 31, 2009 and 2008 were $395,400 and $364,327, respectively.

During 2008, VTB provided a short-term ruble-denominated loan to the Group subsidiaries (CMP, SKCC and Yakutugol) bearing interest at 12.0%, which was increased by the bank in November 2009 up to 14.6% p.a. for SKCC and Yakutugol and up to 14% for CMP. According to additional agreement the loan should be repaid in November 2012. In 2009, VTB provided Euro-denominated long- term and short-term loans to HBL bearing interest 8.22-8.36%. The outstanding balances as of December 31, 2009 and 2008 were $525,219 and $518,263, respectively.

In 2009 and 2008, Sberbank provided long-term and short-term ruble and U.S. dollar-denominated loans to CMP, Moskoks and Izhstal bearing interest at 12.5-18.22% p.a. The outstanding balances as of December 31, 2009 and 2008 were $281,746 and $112,320, respectively.

During 2009, Bank of Moscow provided long-term and short-term ruble-denominated loans to Yakutugol bearing interest at 10.6-12.0% p.a. The outstanding balance as of December 31, 2009 was $56,209.

During 2009, Moscow Credit Bank provided long-term ruble-denominated loans to Yakutugol and SUNP bearing interest at 12.0% p.a. The outstanding balance as of December 31, 2009 was $46,290.

During 2009 and 2008, Raiffeisenbank provided to the Group’s subsidiaries long-term multi-currency-denominated loans bearing interest at 1.35-14.54% p.a. The outstanding balances as of December 31, 2009 and 2008 were $59,997 and $19,537, respectively.

During 2009 and 2008, UniCredit Bank provided to the Group’s subsidiaries short-term and long-term multi-currency-denominated loans bearing interest at 1.10-14.64% p.a. The outstanding balances as of December 31, 2009 and 2008 were $123,084 and $73,538, respectively.

During 2009 and 2008, Uralsib Bank provided BMP, KMP and Izhstal with short-term U.S. dollar-denominated loans bearing interest at 7.5-20.0% p.a. The outstanding balances as of December 31, 2009 and 2008 were $144,730 and $97,157, respectively.

In 2008, Alfa-bank provided several short-term ruble-denominated loans to CMP bearing interest at 16.85-20.15% p.a. The loans were fully repaid in March 2009.

During 2009 and 2008, Fortis Bank provided the Group’s subsidiaries with short-term and long-term U.S. dollar-denominated and Euro-denominated loans bearing interest at 1.68-5.34% p.a. The outstanding balances as of December 31, 2009 and 2008 were $67,262 and $37,434, respectively.

During 2008 and 2009, ING Bank provided Group subsidiaries with short-term and long-term U.S. dollar-denominated and Euro-denominated loans bearing interest at 1.25-4.21% p.a. The outstanding balances as of December 31, 2009 and 2008 were $78,923 and $25,702, respectively.

During 2008, upon the acquisition of Oriel, the Group included in its debt portfolio long-term U.S. dollar-denominated loans from EDB, HVB and WestLB AG in the total amount of $90,000 bearing interest at 7.14-9.12% p.a. The loans were fully repaid by December 31, 2009.

During 2009, upon the acquisition of the BCG Companies, the Group included in its debt portfolio long-term U.S. dollar-denominated loans from Carter Bank and Trust, First United National Bank, Caterpillar Finance, People's Capital & Leasing and other banks in the total amount of $100,719 bearing interest at 3.25-11.00% p.a.

Pledges

As of December 31, 2009 and 2008, the carrying value of property, plant and equipment pledged under loan agreements amounted to $693,051 and $326,261, respectively. Carrying value of inventories pledged under loan agreements amounted to $116,234 and $109,080 as of December 31, 2009 and 2008, respectively. Accounts receivable pledged as of December 31, 2009 and 2008 amounted to $143,433 and $38,557, respectively. Cash pledged under loan agreements amounted to $25,913 and $nil as of December 31, 2009 and December 31, 2008, respectively.

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 shareholder's equity and cross-default provisions. The covenants also include, among other restrictions, limitations on (i) indebtedness of certain companies in the Group, and (ii) amounts that can be expended for new investments and acquisitions. Covenant breaches generally permit lenders to demand accelerated repayment of principal and interest.

As of December 31, 2008, the Group breached a number of financial and non-financial covenants in various loan agreements, including "Shareholder's Equity to Net Borrowings", "Financial Indebtedness to Tangible Net Worth", cash turnover ratio, pledges and overdue payable limits, limits on tax claims, etc. and failed to obtain waivers from the banks before the issuance of the financial statements. As of December 31, 2009, the Group also breached a number of financial and non-financial covenants in various loan agreements but received appropriate consents and covenant amendments from the banks and as of the date of the issuance of the financial statements, the Group did not have any violations of the covenants, which might lead to the demand for accelerated repayment of principal and interest under various facility agreements. In contrast with December 31, 2008, no reclassifications of long-term debt to short-term liabilities due to covenant violations were made as of December 31, 2009.

Specifically, the Group received consents and covenant amendments relating to the following breaches under the most significant long-term and short-term loan arrangements totaling $4,096,217 as of December 31, 2009:

- The Group was not in compliance with certain financial ratios, specifically, "Net Borrowings" as defined by the applicable debt agreements, do not exceed $5,500,000, while the actual Group's Net Borrowings amount as of December 31, 2009 was $5,677,471. The amount of the covenant was amended to $5,750,000:
  - The Group breached the "Net Borrowings" level under the "Yakutugol" and "Oriel" credit facilities. The outstanding amount of debt under the arrangements as of December 31, 2009 was $2,348,996;
  - SKCC breached the "Net Borrowings" level under the long-term ruble-denominated loan provided by VTB. The outstanding amount of debt under this loan agreements as of December 31, 2009 was $284,352;
  - Yakutugol breached the "Net Borrowings" level under the long-term ruble-denominated loan provided by VTB. The outstanding amount of debt under this loan agreement as of December 31, 2009 was $165,321;
  - Izhstal was not in compliance with the level of "Net Borrowings" under the long-term Euro-denominated loan agreements with Fortis Bank, ABN-AMRO Bank and UniCredit Bank (former Bayerische Hypo-und-Vereinsbank), that had outstanding balances of $37,614, $11,172 and $13,501 as of December 31, 2009, respectively;
  - MIH was not in compliance with the level of "Net Borrowings" under the long-term Euro-denominated loan agreement signed with Fortis Bank. The outstanding amount under the loan agreement was $16,650 as of December 31, 2009;

- CMP was not in compliance with the level of "Net Borrowings" under the long-term Euro-and ruble-denominated loan agreements with ABN Amro, ING, Fortis, UniCredit (former Bayerische Hypo-und-Vereinsbank), VTB, Commerzbank and Raiffeisenbank. The outstanding amount under these loans was $121,667 as of December 31, 2009;
- Mechel-Materialy breached the "Net Borrowings" level under the long-term ruble-denominated loan provided by UniCredit Bank. The outstanding amount of debt under the loan agreement as of December 31, 2009 was $7,369.

- HBL breached the financial ratios "Financial Indebtedness to EBITDA" and "EBITDA to Net Interest Expense" set at level of at lowest 3:1 and at highest 3:1, respectively, under the long-term Euro-denominated loan agreement signed with VTB Deutchland while the actual ratios as of December 31, 2009 were 10.8:1 and 0.7:1, respectively. The outstanding balance under this loan agreement was $23,648 as of December 31, 2009;
- Ductil Steel breached "Debt to EBITDA" ratio set at less than 3:1 under the long-term U.S. dollar denominated loan agreement with ING Bank. Ductil Steel also was not in compliance with the following covenant: "the Borrower shall route through the Bank a percentage of its turnover equal to that of the Total Facility granted by the Bank in Borrower's total bank debts". The outstanding amount under this loan agreement was $22,481 as of December 31, 2009;
- MTH, being a guarantor under the facility agreement between SKCC and UniCredit Bank, breached the "Equity" ratio set at a level of the highest $200,000. The outstanding amount under this guarantee agreement was $40,000 as of December 31, 2009;
- Yakutugol and SKCC did not reach the minimum level of export sales turnover to be routed through the bank account that was set at 50% under the long-term U.S. dollar-denominated loan agreement with Gazprombank. The outstanding amount under these loans was $1,000,000 as of December 31, 2009.

In June 2009, the BCG Companies received a request from the lenders under the long-term U.S. dollar-denominated facility agreement with People's Capital and Leasing Corporation regarding an immediate repayment of the outstanding amount of $3,446 as of December 31, 2009, due to the change in ownership. As of the date of the issuance of the financial statements, a new repayment schedule was under discussion between counterparties.

16. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Group adopted ASC 820, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Assets Measured at Fair Value on a Recurring Basis

The Group has segregated all financial assets that are measured at fair value on a recurring basis as of December 31, 2009 and 2008 into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below:

December 31, 2009	Level 1	Level 2	Level 3	Fair Value Measurements
Assets:				
Available-for-sale securities	9,118	–	–	**9,118**
Total assets	**9,118**	–	–	**9,118**
Liabilities:				
Contingent liability	–	–	(20,369)	**(20,369)**
Total liabilities	–	–	(20,369)	**(20,369)**

December 31, 2008	Level 1	Level 2	Level 3	Fair Value Measurements
Assets:				
Available-for-sale securities	15,938	–	–	**15,398**
Total assets	**15,938**	–	–	**15,938**

To determine the fair value of available-for-sale securities quoted market prices in active markets for identical assets were used by the Group and they were considered as Level 1 inputs.

The contingent liability measured at fair value is presented by the Drilling Program contingent liability (refer to Note 4(a)), which was calculated using the estimated tonnage of coal in-place determined by the independent appraisal. The maturity date of the contingent liability is May 7, 2014. The present value of contingent liability was determined using an 8% discount rate, stated in the Merger 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 Group's model inputs used involve significant management judgment. Such assets and liabilities are typically classified within Level 3 of the fair value hierarchy. The table below sets forth a summary of changes in the fair value of Group's Level 3 financial liability at December 31, 2009:

	Contingent liability
Beginning balance as of the acquisition date	**(514,607)**
Gain resulting from remeasurement of contingent liability (Note 24)	494,238
Transfers in and out of Level 3	–
Balance at end of year	**(20,369)**

As of December 31, 2009, the fair value of variable and fixed rate long-term loans (based on future cash flows discounted at current long-term market rates available for corporations) was as follows:

	Carrying value as of December 31, 2009	Fair value as of December 31, 2009
Russian ruble-denominated debt	1,139,795	1,094,052
U.S. dollar-denominated debt	2,759,826	2,825,463
Euro-denominated debt	174,837	170,343
Total long-term debt	**4,074,458**	**4,089,858**

The fair value of short-term borrowings, bank financing, equipment financing contracts and other financial instruments not included in the table above approximates carrying value.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

17. ASSET RETIREMENT OBLIGATIONS

The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The majority of these obligations are not expected to be paid for many years, and will be funded from general Group resources at the time of removal. The Group's asset retirement obligations primarily relate to its steel and mining production facilities with related landfills and dump areas and its mines.

The following table presents the movements in asset retirement obligations for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Asset retirement obligation at beginning of year	**71,604**	**71,294**	**92,358**
Liabilities incurred in the current year	3,359	6,066	10,908
Liabilities settled in the current year	(6,706)	(5,300)	(521)
Accretion expense	7,398	6,078	3,101
Revision in estimated cash flow	(13,262)	7,155	(40,078)
Translation difference	(2,698)	(13,689)	5,526
Asset retirement obligation at end of year	**59,695**	**71,604**	**71,294**

Liabilities incurred during the year ended December 31, 2009 are represented by the obligations arising on the acquisition of the BCG Companies in the amount of $3,359. Liabilities incurred during the year ended December 31, 2008 are represented by the obligations arising on the acquisitions of Oriel and Ductil Steel in the amounts of $3,264 and $2,802, respectively. Liabilities incurred in 2007 are represented primarily by the obligations arising on the acquisition of Yakutugol in the amount of $8,400.

Revision in estimated cash flow represented the effect of the changes resulting from the management revisions to the timing and/or the amounts of the original estimates, and is recorded through an increase or decrease in the value of the underlying non-current assets. The effects of revisions in estimated cash flows relate mainly to continuous refinement of future asset removal activities and restoration costs at Izhstal during the year ended December 31, 2009 and at CMP and KMP during the year ended December 31, 2007 as assessed by the Group with the help of independent environmental engineers.

18. PENSION AND POSTRETIREMENT BENEFITS

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. The old age retirement pension is 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.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Several entities contribute certain amounts to non-state pension funds (Almaznaya Osen' and Mechel Fund), which, together with amounts earned from investing the contributions, are intended to provide pensions to members of pension plans. However, pursuant to agreements between the Group and these non-state pension funds, 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 U.S. GAAP and these pension schemes are considered to be fully unfunded.

Yakutugol acquired by the Group on October 19, 2007 provides the following benefits: (a) lump-sum upon retirement, (b) financial support for resettlement upon retirement (after attainment of statutory retirement age) from Yakutia to Central Russia, (c) occupational pension program (subject to attainment of statutory retirement age, completion of 15 years of service for Yakutugol and only from January 1, 2008) – life semi annual pension via Almaznaya Osen', (d) death in service and in retirement benefit, and (e) occupational accident disability benefits. Prepayments made to Almaznaya Osen' and Mechel Fund, are included in other non-current assets (refer to Note 14). The increase in projected benefit obligation of $216,154 as of December 31, 2007 was due to the business combination and related to the Yakutugol pension benefit obligations, consolidated upon the acquisition of Yakutugol in October 2007.

As of December 31, 2009, there were approximately 70,056 active participants under the defined benefit pension plans and 27,228 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2008, the related figures were 73,375 and 21,385, respectively. The majority of employees at the Group's major subsidiaries belong to trade unions.

Actuarial valuation of pension and other post employment and postretirement benefits was performed in March 2010, with the measurement date of December 31, 2009. Members' census data as of that date was collected for all relevant business units of the Group.

Pension costs determined by the Group are supported by an independent qualified actuary, and are charged to the statements of income and comprehensive (loss) income ratably over employees' working service with the Group.

As of December 31, 2009 projected benefit obligation and other postretirement benefit obligations amounted to $183,989.

Projected benefit obligation

The movements in the projected benefit obligation ("PBO") were as follows during the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Projected benefit obligation at beginning of year	**187,030**	**330,366**	**70,214**
Service cost	7,680	9,245	4,523
Interest cost	14,917	18,426	7,000
Obligations arising from acquisitions and other	1,665	6,901	220,216
Benefits paid	(15,000)	(11,895)	(4,808)
Actuarial loss (gain)	3,650	(74,889)	13,046
Plan amendments	1,856	(1,750)	-
Curtailment (gain) loss	(38,573)	(52,156)	5,368
Translation difference	(6,345)	(37,218)	14,807
Projected benefit obligation at end of year	**156,880**	**187,030**	**330,366**

The main reason for the reduction in the PBO in 2009 related to curtailments, settlements and actuarial gains related to Yakutugol, and were specifically attributable to the revisions in the resettlement program due to changes in the program, eligibility, assumptions and significant reduction in number of employees at Yakutugol, which resulted in the decrease in the PBO by $35,782.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Main reasons for the reduction in the PBO in 2008 related to the following:

- Revisions in the resettlement program due to changes in assumptions and significant reduction in number of employees at Yakutugol resulted in the decrease in PBO by $8,248;
- Change in assumptions, significant reduction in number of employees, settlement of obligations towards withdrawn deferred pensioners, and changes in benefit formula resulted in the overall decrease in the PBO by $37,215;
- Actuarial gain of $39,923 related to changes in discount rates, staff turnover, retirement age and other assumptions.

Amounts recognized in the consolidated balance sheets were as follows as of December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Pension obligation, current portion	30,610	28,960
Pension obligation, net of current portion	126,270	158,070
Total pension obligation	**156,880**	**187,030**

The components of net periodic benefit cost were as follows for the year ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Service cost	7,680	9,245	4,535
Amortization of prior service cost	313	500	469
Interest cost	14,917	18,426	6,998
Amortization of actuarial (gain) loss	(3,187)	(89)	586
Curtailment gain	(37,717)	(23,421)	(352)
Termination benefits	–	4,524	78
Other benefits	1,665	–	–
Net periodic benefit cost	**(16,329)**	**9,185**	**12,314**

A summary of the PBO, the accumulated benefit obligation, fair value of plan assets and funded status were as follows as of December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Projected benefit obligation	156,880	187,030
Accumulated benefit obligation	115,843	137,143
Fair value of plan assets	–	–
Funded status	(156,880)	(187,030)

Amounts recognized in accumulated other comprehensive income ("AOCI") were as follows for the years ended December 31, 2009 and 2008:

	2009	2008
Net (gain) loss	(57,079)	(60,952)
Prior service cost	3,015	1,609
Total amount recognised in AOCI	**(54,064)**	**(59,343)**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The change in the PBO recognized in Other Comprehensive Income was as follows for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Additional loss (gain) arising during the year	3,650	(74,889)	13,046
Less re-classified (gain) loss amortization	(2,490)	20,276	584
Additional prior service cost (credit) from plan amendment	1,856	(1,750)	–
Less re-classified prior service cost amortization	472	500	479
Translation difference	245	821	–
Net amount recognised in other comprehensive income for the year	**7,769**	**(96,594)**	**11,983**

The key actuarial assumptions used were as follows as of December 31, 2009 and 2008:

	2009	2008
Discount rate		
Russian entities	8.70%	9.00%
Romanian entities	10.00%	13.00%
German entities	6.00%	6.00%
Expected return on plan assets	N/A	N/A
Rate of compensation increase		
Russian entities	7.80%	8.60%
Romanian entities	5.37%	6.10%
German entities	N/A	N/A
Rate of pension entitlement increase (before benefit commencement)	7.80%	8.60%
Rate of monthly financial support increase	6.20%	7.00%
Rate used for calculation of purchased annuity value	5.00%	5.00%

The results of sensitivity analysis of PBO as of December 31, 2009 are presented below:

	Change in PBO as of December 31, 2009 % from the "Base Case" PBO
Discount rate of 1% p.a. lower than "base case"	14%
Salary growth of 1% p.a. higher than "base case"	4%
Staff turnover rate increased by 5% p.a. for all ages	(11)%

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2010:

	2010
Transition obligation (asset)	–
Net gain	(2,589)
Prior service cost	833
Total amounts expected to be recognized during 2010	**(1,756)**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	2010	2011	2012	2013	2014	2015-2019	Total
Pensions (including monthly financial support)	16,178	7,664	7,480	8,243	9,702	51,626	100,893
Other benefits	14,432	5,053	4,830	5,175	5,862	34,104	69,456
Total expected benefits to be paid	**30,610**	**12,717**	**12,310**	**13,418**	**15,564**	**85,730**	**170,349**

Other postretirement benefit obligations

Upon the acquisition by the Group of the BCG Companies on May 7, 2009 (refer to Note 4 (a)), the Group recognized the healthcare postretirement benefit obligations, which consisted of the following:

	2009
Accumulated postretirement benefit obligation at May 7, 2009	**21,420**
Service cost	515
Interest cost	1,037
Actuarial loss	4,875
Benefits paid	(738)
Accumulated postretirement benefit obligation at end of the period	**27,109**

Amounts recognized in the consolidated balance sheets were as follows as of December 31, 2009:

	December 31, 2009
Postretirement obligation, current portion	1,107
Postretirement obligation, net of current portion	26,002
Total postretirement obligation	**27,109**

The components of net periodic benefit cost were as follows for the year ended December 31, 2009:

	2009
Service cost	515
Interest cost	1,037
Net periodic benefit cost	**1,552**

Amounts recognized in AOCI were as follows for the year ended December 31, 2009:

	2009
Net actuarial loss	4,876

The key actuarial assumptions used were as follows as of December 31, 2009:

	2009
Weighted average discount rate at the end of the year	6.28%
Weighted average discount rate for the period May 7, 2009 to December 31, 2009	7.40%
Healthcare cost trend assumed for 2010	10.00%

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The results of sensitivity analysis of postretirement benefit obligations as of December 31, 2009 are presented below:

	Change in postretirement benefit obligations as of December 31, 2009
Annual effect of 1% point increase in healthcare cost trend on:	
Service and interest cost components	725
Accumulated postretirement benefit obligation	4,543
Annual effect of 1% point decrease in healthcare cost trend on:	
Service and interest cost components	(539)
Accumulated postretirement benefit obligation	(3,622)

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2010:

	2010
Transition obligation (asset)	–
Net loss	120
Prior service cost (credit)	–
Total amounts expected to be recognized during 2010	120

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	2010	2011	2012	2013	2014	2015-2019	Total
Estimated future benefit payments reflecting expected future service	1,107	1,202	1,290	1,365	1,385	7,335	13,684

19. FINANCE LEASE

In 2009 and 2008, several Group's subsidiaries entered into agreements with third parties for the lease of transport and production equipment. The leases were classified as finance (capital) lease in accordance with the FASB ASC 840, "Leases", as they contain a bargain purchase option and the title to the leased equipment generally transfers to the lessee at the end of the lease term.

As of December 31, 2009 and 2008, the net book value of the leased assets was as follows:

	December 31, 2009	December 31, 2008
Transportation equipment and vehicles	105,981	85,985
Operating machinery and equipment	39,455	6,820
Less: accumulated depreciation	(19,495)	(10,340)
Net value of property, plant and equipment, obtained under capital lease agreements	**125,941**	**82,465**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The carrying amount and maturities of capital lease liabilities as of December 31, 2009 were as follows:

	Total payable	Interest	Net payable
Payable in 2010	49,725	(13,760)	35,965
Payable in 2011	35,449	(8,913)	26,536
Payable in 2012	24,916	(3,371)	21,545
Payable in 2013	8,603	(876)	7,727
Payable in 2014	2,647	(153)	2,494
Payable thereafter	420	(28)	392
Total capital lease liabilities	**121,760**	**(27,101)**	**94,659**

As of December 31, 2009, transportation equipment and vehicles under the finance lease agreement between Mechel Trans and Brunswick Rail Leasing Limited in the amount of $19,641 were pledged under the operating assignment agreement with Banque Societe Generale Vostok.

The discount rate used for the calculation of the present value of minimum lease payments equals the implicit rate for the lessor and varies from 2.73% to 20.53% on different groups of equipment in U.S. dollar and from 7.88% to 22.85% in Euro-denominated contracts. Interest expense charged to the accompanying Group's income statements in 2009 and 2008 amounts to $12,916 and $14,390, respectively.

20. EQUITY

Capital stock

The capital stock of Mechel OAO consists of 497,969,086 authorized common shares with par value of 10 Russian rubles (approximately $0.3), of which 416,270,745 common shares were outstanding as of December 31, 2009 and 2008.

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 for future issuances (representing 25% of the Mechel OAO's share capital). Under the Russian law and the Mechel OAO'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.

On May 7, 2009, the Group transferred 83,254,149 preferred shares to the sellers of the BCG Companies as a part of purchase consideration. As of the acquisition date, the estimated value of the preferred shares amounted to $496,159 (refer to Note 4(a)). An excess of the appraised value of the preferred shares over their par value was accounted for as an additional paid-in capital.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Dividends

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 9% withholding tax for residents and 15% for non-residents, which can 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 company held a controlling (over 50%) interest in the share capital of the dividend payer for a period over one year, if the cost of acquisition of shares of the company paying dividends exceeded 500 million Russian rubles). Additional dividend tax could be imposed on the transfer of undistributed earnings of subsidiaries to Mechel (generally, tax rate is assumed as 9%). Approximately $9,372,302 and $9,929,170 of statutory undistributed earnings were available for dividends as of December 31, 2009 and 2008, respectively. Approximately $265,512 of undistributed retained earnings of the Group's subsidiaries was restricted for distribution in accordance with a covenant provided in a loan agreement with BNP Paribas as of December 31, 2009.

On June 30, 2009, Mechel declared a dividend of 6,510 million Russian rubles ($208,066) to its shareholders for 2008, out of which $134,498 was distributed to the holders of preferred shares. During July-December 2009, the dividends declared for 2008 were paid in full.

Earnings per share

Net income per common share for all periods presented was determined in accordance with FASB ASC 260, "Earnings Per Share" ("ASC 260"), by dividing income available to shareholders by the weighted average number of shares outstanding during the three years ended December 31:

	2009	2008	2007
Net (loss) income available to common shareholders	(60,757)	1,140,544	913,051
Total weighted average number of shares outstanding during the period	416,270,745	416,270,745	416,270,745
(Loss) earnings per common share	**(0.15)**	**2.74**	**2.19**

Net loss attributable to common shareholders of Mechel OAO for the year ended December 31, 2009, has been computed by deducting the dividends on preferred shares for the year ended December 31, 2008, declared on June 30, 2009, in the amount of $134,498, from Net income attributable to shareholders of Mechel OAO.

Total weighted-average number of common shares outstanding during the period was as follows:

Dates outstanding	Shares outstanding	Fraction of period (days)	Weighted-average number of shares
2007:			
Common shares: January 1-December 31	416,270,745	365	416,270,745
Total weighted average shares outstanding during the period	**416,270,745**		**416,270,745**
2008:			
Common shares: January 1-December 31	416,270,745	366	416,270,745
Total weighted average shares outstanding during the period	**416,270,745**		**416,270,745**
2009:			
Common shares: January 1-December 31	416,270,745	365	416,270,745
Total weighted average shares outstanding during the period	**416,270,745**		**416,270,745**

There were no dilutive securities issued as of December 31, 2009, 2008 and 2007.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Stock issued to minority shareholders

On February 1, 2007, Olzherassk Mine merged with SKCC. The non-controlling interests outstanding as of the merger date were converted into the SKCC shares. The non-monetary exchange was accounted for using the purchase method of accounting and, accordingly, the fair value of SKCC stock issued in excess of the value assigned to the non-controlling interests therein of $2,743 was credited to additional paid-in capital.

In January 2009, the Group purchased the remaining 10% of certain Oriel subsidiaries for $3,500 paid in cash. The transaction was accounted for as equity transaction, and the difference between the consideration paid and the amount by which the non-controlling interest was adjusted, of $3,500, was attributed to additional paid-in capital.

In September-October 2009, the Group purchased 0.44% of SKCC from non-controlling shareholders for $11,131 paid in cash. The transaction was accounted for as equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $8,088, was attributed to additional paid-in capital.

21. INCOME TAXES

Income before income tax, non-controlling interests, discontinued operation and extraordinary gain attributable to different jurisdictions was as follows:

	Years ended December 31,		
	2009	2008	2007
Russia	(390,020)	1,291,336	1,242,197
Switzerland	(45,254)	(4,988)	72,987
British Virgin Islands	39,631	(22,402)	76,920
Romania	(99,069)	70,122	(6,499)
Lithuania	(3,477)	(645)	(208)
Kazakhstan	34,009	15,437	–
USA	428,703	–	–
Other	130,701	(592)	50
Total	**95,224**	**1,348,268**	**1,385,447**

	Years ended December 31,		
	2009	2008	2007
Current income tax expense			
Russia	41,940	513,632	371,522
Switzerland	3,911	2,843	3,022
Romania	57	6,002	–
Lithuania	(1)	72	83
USA	–	–	–
Other	4,651	154	13
	50,558	522,703	374,640
Deferred income tax expense (benefit)			
Russia	(10,829)	(138,442)	(14,837)
Switzerland	3,073	(3,409)	(2,553)
Romania	(2,680)	(1,039)	(900)
Lithuania	230	(126)	(30)
Kazakhstan	(3,251)	(260,838)	–
USA	(20,200)	–	–
Other	1,992	38	–
	(31,665)	(403,816)	(18,320)
Total income tax expense	**18,893**	**118,887**	**356,320**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Taxes represent the Group's provision for profit tax. During 2007-2008, income tax was calculated at 24% of taxable profit in Russia, at 10.5% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 30% in Kazakhstan and at 40.5% in the USA. During 2007, income tax was calculated at 35% in Kazakhstan. The Group's subsidiaries incorporated in Liechtenstein and British Virgin Islands are exempt from profit tax. In November 2008, the tax legislation of Russia was amended to decrease Russian statutory income tax rate from 24% to 20% starting from January 1, 2009. Therefore, during 2009, income tax was calculated at 20% of taxable profit in Russia. In addition, in December 2008 and November 2009, the tax legislation of Kazakhstan was amended to decrease the statutory income tax rate from 30% in 2008 to 20% in 2009-2012, 17.5% - 2013, 15% - 2014 and thereafter. The changes in income tax rates are effective from January 1 in each of the respective years. As of December 31, 2008, the effect of these changes in the total amount of $341,056 was recognized as a reduction in the income tax expense for the year then ended in the Group's statement of income and comprehensive (loss) income.

The reconciliation between the income tax expense computed by applying the Russian enacted statutory tax rates to the income before tax and non-controlling interest, to the income tax (benefit) expense reported in the financial statements is as follows:

	Years ended December 31,		
	2009	2008	2007
Theoretical income tax expense computed on income before taxes at Russian statutory rate (20% in 2009 and 24% in 2008 and 2007)	19,045	323,584	332,507
Effects of other jurisdictions and permanent differences:			
Remeasurement of contingent liability, non-taxable	(95,771)	–	–
Non-deductible expenses and non-taxable income, net	7,244	35,427	48,859
Social expenditures	3,975	2,164	12,274
Change in valuation allowance	106,019	136,443	29,648
Change in unrecognized tax benefits under ASC 740-10	(7,345)	(35,376)	(13,582)
Different tax rates in foreign jurisdictions	(9,657)	8,803	(39,056)
Fines and penalties related to taxes	(1,296)	3,326	(5,202)
Change in tax rate and tax legislation	(3,010)	(341,056)	(7,000)
Other permanent differences	(311)	(14,428)	(2,128)
Income tax expense, as reported	**18,893**	**118,887**	**356,320**

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.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The amounts reported in the accompanying consolidated financial statements consisted of the following:

	December 31, 2009	December 31, 2008
Deferred tax assets, current:		
Inventory	8,758	21,059
Net operating loss carry-forward	13,614	–
Bad debt allowance	5,633	13,647
Timing difference in cost recognition	4,669	880
Accrued liabilities	10,231	3,995
Vacation provision	3,814	10,422
Other	1,498	8,030
Total deferred tax asset, current	48,217	58,033
Valuation allowance for deferred tax assets, current	(10,956)	(22,206)
Total deferred tax asset net of valuation allowance, current	37,261	35,827
Deferred tax assets, non-current:		
Net operating loss carry-forward	329,570	150,735
Asset retirement obligation	6,729	6,821
Property, plant and equipment	10,757	9,555
Pension obligations	10,095	499
Other	1,607	158
Total deferred tax assets, non-current	358,758	167,768
Valuation allowance for deferred tax assets, non-current	(258,047)	(133,251)
Total deferred tax asset net of valuation allowance, non-current	100,711	34,517
Total deferred tax asset, net	**137,972**	**70,344**

	December 31, 2009	December 31, 2008
Deferred tax liabilities, current:		
Timing difference in revenue recognition	11,002	11,280
Timing difference in cost recognition	4,582	6,270
Inventories	11,320	8,171
Bad debt allowance	3,720	5,966
Other	4,794	3,082
Total deferred tax liabilities, current	35,418	34,769
Deferred tax liabilities, non-current:		
Property, plant and equipment	351,822	315,333
Mineral licenses	1,157,423	507,826
Investments	2,072	3,437
Timing difference in cost recognition	1,864	773
Other	15,418	17,607
Total deferred tax liabilities, non-current	1,528,599	844,976
Total deferred tax liability	**1,564,017**	**879,745**

A deferred tax liability of approximately $298,956 and $109,863 as of December 31, 2009 and 2008, respectively, has not been recognized 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 $328,188 and $638,112 as of December 31, 2009 and 2008, respectively, has not been recognized 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.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

In 2007, at the date of its acquisition of Yakutugol, the Group recorded deferred tax assets of $44,568 resulting from the recognition of pension liabilities. The amounts related to payments made to the non-state pension fund Almaznaya Osen' and periodic and one-time payments made as post-retirement support to the employees. In previous years, such payments were treated as deductible expenses for tax purposes. In 2008, the Group changed its position with respect to the deduction of payments to the non-state pension fund Almaznaya Osen' and started treating them as non-deductible for tax purposes. Additionally, the Group excluded expenses to the non-state pension fund from expenses periodically deducted for profit tax purposes and re-filed its profits tax returns for 2006-2007 based on the results of tax authorities' audits. The effect of related adjustments was applied to increase the remaining balance of goodwill attributable to the Yakutugol's acquisition (refer to Note 4(k)). In addition, the Group derecognized most of its other deferred tax assets related to pension benefit obligations as of December 31, 2007 as increase in income tax expense in 2008.

Based on the new Russian tax law effective January 1, 2008, intercompany dividends are subject to a withholding tax of 0% (if at the date of dividends declaration, the dividend-recipient company held a controlling (over 50%) interest in the share capital of the dividend payer for a period over 1 year, if the cost of acquisition of shares of the company paying dividends exceeded 500 million Russian rubles) or 9%, if being distributed by Russian companies to Russian companies, and 15%, if being distributed by foreign companies to Russian companies or by Russian companies to foreign companies.

For financial reporting purposes, a valuation allowance is recognized to reflect management's estimate for realization of the deferred tax assets. Valuation allowances are provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on expectations of future taxable income and reversals of the various taxable temporary differences. Deferred tax assets on net operating loss carryforwards which are considered to be realized in the future, are related to the Russian, Kazakhstan and U.S. jurisdictions. For the Russian, Kazakhstan and U.S. income tax purposes, certain subsidiaries of the Group have accumulated tax losses incurred primarily in 2007-2009, which may be carried forward for use against their future income within 10 years in the full amounts.

As of December 31, 2009 and 2008, deferred tax assets on net operating loss carryforwards for statutory income tax purposes amounted to $343,184 and $150,735, respectively. As management concluded that the utilization of a substantial portion of such losses is not probable, the valuation allowances in the amount of $256,919 and $130,540 were recorded against net operating loss carryforwards by the Group. The significant increase in tax losses subject to carryforward in 2009 was caused by interest payments on borrowings, which were taken to finance the 2008 and 2009 acquisitions, and operating losses incurred by the several Group subsidiaries due to a substantial fall in market prices for the main commodities manufactured or mined by the Group.

Unrecognized Tax Benefits

Unrecognized income tax benefits of $17,172, including interest and penalties of $7,928, as of December 31, 2009 and $27,176, including interest and penalties of $8,665, as of December 31, 2008 were recorded by the Group in the accompanying consolidated balance sheets.

The reconciliation of the beginning and ending amount of unrecognized income tax benefits, net of interest and penalties, is as follows:

	2009	2008
Unrecognized income tax benefits at the beginning of year	**18,511**	**50,300**
Increases as a result of tax positions taken during a prior period (including additions related to the acquisition of Oriel of $1,398 in 2008)	–	1,398
Decreases as a result of tax positions taken during a prior period	(8,745)	(18,349)
Increases as a result of tax positions taken during the current period	1,586	5,870
Decreases relating to settlements with tax authorities	(1,248)	–
Reductions as a result of a lapse of the applicable statute of limitations	–	(16,388)
Translation difference	(860)	(4,320)
Unrecognized income tax benefits at the end of year	**9,244**	**18,511**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Reduction in unrecognized income tax benefits in 2009 was largely a result of decreases in tax position taken previously based on the results of recent tax audits or changes in the related tax legislation or its interpretations. All unrecognized income tax benefits, if recognized, would affect the effective tax rate. Interest and penalties recognized in accordance with ASC 740 are classified in the financial statements as income taxes. The Group recognized interest and penalties of $1,270 and $12,605 in 2009 and 2008, respectively.

As of December 31, 2009, the tax years ended December 31, 2007-2009 remained subject to examination by Russian tax authorities. As of December 31, 2009, the tax years ended December 31, 2005-2009 remained subject to examination by Swiss, Liechtenstein, Romanian and the U.S. tax authorities. In some companies certain periods were reviewed by the tax authorities and based on the history the Group believed that probability of the repetitive review is less than 10%. Based on the underlying purchase agreement, any tax risks, which may be identified by the U.S. tax authorities for the period before the date of acquisition of the BCG Companies will be imposed to the Seller.

Although the Group believes it is more likely than not that all recognized income tax benefits would be sustained upon examination, the Group has recognized some income tax benefits that have a reasonable possibility of successfully being challenged by the tax authorities.

22. TAXES OTHER THAN INCOME TAX

Taxes other than income tax included in the consolidated income statements are comprised of the following:

	Years ended December 31,		
	2009	**2008**	**2007**
Property and land tax	79,253	85,415	73,849
VAT	8,600	1,618	9,964
Fines and penalties related to taxes	379	35,280	12,575
Other taxes and penalties	16,971	(5,723)	(12,394)
Total taxes other than income tax	**105,203**	**116,590**	**83,994**

Property and land tax includes payments for land tax, which amounted to $31,931, $34,300 and $33,719 for the years ended December 31, 2009, 2008 and 2007, respectively. This tax is levied on the land beneath the Group's production subsidiaries that is occupied based on the right of perpetual use. According to land legislation, the right of perpetual use has to be re-registered before January 1, 2012 through purchase of land or operating leases up to 49 years, which will be decided by the Group during 2010.

Property and land tax also includes expenses for the operating lease of land, which ranges between 1 and 49 years. These land lease expenses amounted to $10,323, $9,394 and $7,745 for the years ended December 31, 2009, 2008 and 2007, respectively. The amount of rental payments is determined by local authorities and cannot be reasonably estimated beyond a five-year horizon. The table below presents future land rental payments for the next five years and thereafter under non-cancelable operating lease agreements based on the current rental rates:

Year of payment	Operating lease payments
2010	9,554
2011	7,504
2012	7,222
2013	7,139
2014	6,623
Thereafter	163,307
Total land operating lease payments	**201,349**

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Included in Fines and penalties related to taxes in 2008 are penalties to the Federal Antimonopoly Service ("FAS") amounted to $32,111.

Included in Other taxes and penalties in 2009 are $5,091 relating to fees for environmental restoration and air contaminant emission and $6,259 relating to social taxes, wealth taxes, mining taxes and penalties that belong to previous financial years.

Included in Other taxes and penalties in 2007 is the gain of $25,701 relating to resubmitted mineral extraction tax returns at KMP owing to the change in the tax arbitration practice.

23. GENERAL, ADMINISTRATIVE AND OTHER OPERATING EXPENSES

General, administrative and other operating expenses are comprised of the following:

	Years ended December 31,		
	2009	2008	2007
Personnel and social contributions	221,976	263,446	201,919
Social expenses	22,743	56,303	53,636
Office expenses	37,400	48,143	32,924
Audit and consulting services	35,990	31,262	25,030
Consumables	12,397	23,903	11,923
Depreciation	22,789	23,314	14,307
Disposals of property, plant and equipment	2,865	11,318	10,581
Banking charges and services	10,843	11,314	10,703
Business trips	5,518	11,094	7,417
Rent	5,169	6,681	5,535
Other	11,787	67,938	35,093
Total general, administrative and other operating expenses	**389,477**	**554,716**	**409,068**

Rent represents office-related expenses. Expenses for the operating lease of land, which ranges between 1 and 49 years are included into other taxes and disclosed in Note 22.

24. OTHER INCOME (EXPENSES), NET

Other income, net is comprised of the following:

	Years ended December 31,		
	2009	2008	2007
Gain resulting from remeasurement of contingent liability (refer to Note 4(a))	494,238	–	–
Contributions to Mechel Fund	–	(17,501)	–
Gain (loss) on sale of investments	155	4,568	(13,426)
Gain on forgiveness of fines and penalties	1,241	–	8,311
Gain on accounts payable with expired legal term	2,571	2,370	12,158
Gain on raw materials sales	14,978	8,475	10,729
Loss on currency operations	(3,653)	(4,464)	(319)
Other taxes	–	(811)	4,345
Other expenses	(9,273)	(11,458)	(1,954)
Total other income (expenses), net	**500,257**	**(18,821)**	**19,844**

Contributions to Mechel Fund included founder contributions to the pension fund Mechel Fund made by a number of Group's subsidiaries in the total amount of $17,501 during the year ended December 31, 2008, which based on the management's interpretation of the Russian legislation do not meet the definition of an asset.

Gain on forgiveness of fines and penalties of $8,311 in 2007 includes forgiveness of specified portion of restructured fines and penalties of the Group's Russian subsidiaries in accordance with the terms of restructuring agreements, upon the full and timely payment of current taxes.

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.

25. SEGMENTAL INFORMATION

The Group has four reportable business segments: Steel, Mining, Ferroalloy and Power. These segments are combinations of subsidiaries and have separate management teams and offer different products and services. The above four segments meet criteria for reportable 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, operating income and income before income taxes and non-controlling interest.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Segmental information for 2009, 2008 and 2007 is as follows:

	2009						2008						2007					
	Mining	Steel	Ferroalloy	Power	Eliminations **	Total	Mining	Steel	Ferroalloy	Power	Eliminations **	Total	Mining	Steel	Ferroalloy	Power	Eliminations **	Total
Revenues from external customers	1,548,902	3,307,624	363,652	533,968		5,754,146	3,333,406	5,495,139	434,017	688,143		9,950,705	1,372,508	4,306,875	501,143	503,316		6,683,842
Intersegment revenues	277,278	196,426	67,157	338,816		879,677	698,561	278,580	150,614	339,967		1,467,722	598,461	107,617	135,513	95,199		936,790
Gross margin	836,734	627,839	38,381	230,268	60,231	1,793,453	2,802,336	1,554,375	13,469	314,016	6,401	4,690,597	962,484	1,040,072	382,931	205,362	(73,871)	2,516,978
Gross margin*, %	45.8%	17.9%	8.9%	26.4%		31.2%	69.5%	26.9%	2.3%	30.5%		47.1%	48.8%	23.6%	60.1%	34.3%		37.7%
Depreciation, depletion and amortization	225,078	116,800	48,727	16,070		406,675	280,276	137,492	22,738	22,791		463,297	136,479	124,156	13,366	16,314		290,315
Loss on write-off of property, plant and equipment	3,496	1,669	15,775	–		20,940	796	3,527	–	–		4,323	–	–	–	–		–
Operating income (loss)	226,317	(54,020)	(27,586)	40,702	60,231	245,644	1,800,540	770,439	(50,517)	29,406	6,401	2,556,269	571,469	537,261	350,107	12,627	(73,871)	1,397,593
Income / (loss) from equity investees	1,518	–	–	(318)		1,200	572	–	–	145		717	152	–	–	–	(144)	8
Interest income	9,606	10,973	809	57		21,445	2,512	4,892	4,210	–		11,614	1,692	4,745	5,685	156		12,278
Intersegment interest income	92,112	38,337	9,233	–		139,682	16,707	75,342	10,194	–		102,243	6,264	29,953	4,163	–		40,380
Interest expense****	243,796	204,045	50,495	650		498,986	70,439	163,853	89,466	325		324,083	26,658	70,742	1,344	232		98,976
Intersegment interest expense	10,365	29,045	73,094	27,178		139,682	50,155	17,683	3,145	31,260		102,243	13,388	6,892	–	20,100		40,380
Segment assets*****	7,126,686	3,395,838	2,196,254	464,533		13,183,311	5,245,933	3,599,847	2,652,177	511,677		12,009,634	4,743,361	3,285,658	702,860	495,762		9,227,641
Invesments in equity investees***	11,586	–	–	71,364		82,950	10,518	–	–	68,869		79,387	18,001	–	–	73,347		91,348
Capital expenditures	366,933	208,671	32,774	4,366		612,744	712,400	336,520	101,287	21,124		1,171,331	542,695	261,349	22,882	6,615		833,541
Income tax (expense) / benefit	(6,214)	(4,885)	(2,236)	(5,558)		(18,893)	(295,697)	(81,022)	252,188	5,644		(118,887)	(133,574)	(132,557)	(87,026)	(3,163)		(356,320)

** Gross margin percentage is calculated as a function of total revenues for the segment, including both from external customers and intersegment.*

*** Eliminations represent adjustments for the elimination of intersegment unrealized profit (loss).*

****Included in total segment assets.*

***** Interest expense incurred by the production subsidiaries is included in the corresponding segment. Directly attributed interest expense incurred by the servicing subsidiaries (trading houses and corporate) is included in the appropriate segment based on the nature and purpose of the debt, while the interest expense related to general financing of the Group is allocated to segments proportionate to respective segment revenues.*

The amount of electricity transmission costs, included in the selling and distribution expenses of power segment, for 2009, 2008 and 2007 is $154,980, $223,253 and $151,831, respectively.

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

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.

	2009	2008	2007
Domestic:			
Russia	2,714,246	5,337,695	3,873,044
Other	478,553	863,008	430,041
Total	3,192,799	6,200,703	4,303,085
Export	2,561,347	3,750,002	2,380,757
Total revenue, net	**5,754,146**	**9,950,705**	**6,683,842**

Allocation of total revenue by country is based on the location of the customer. The Group's total revenue from external customers by geographic area for the last three fiscal years was as follows:

	2009	2008	2007
Russia	2,739,417	5,341,256	3,892,579
Europe	1,139,608	2,157,868	1,466,078
Asia	869,156	1,195,508	219,380
CIS	277,781	620,278	439,134
Middle East	585,446	391,377	609,592
USA	48,076	53,231	27,024
Other regions	94,662	191,187	30,055
Total	**5,754,146**	**9,950,705**	**6,683,842**

The majority of the Group's long-lived assets are located in Russia. The carrying amounts of long-lived assets pertaining to the Group's major operations located outside Russia as of December 31, 2009 and 2008 were as follows:

	2009	2008
USA	2,285,155	–
CIS	1,645,828	1,985,194
Romania	212,926	215,778
Germany	34,866	33,844
Lithuania	10,039	10,795
Switzerland/Liechtenstein	749	868
Other	813	–

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.

26. 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, 2009, total Group's contract commitments amounted to $4,417,494, which consisted of the following: commitment to acquire property, plant and equipment of $2,590,879, commitment to acquire raw materials of $632,460, commitment for delivery of goods and services of $1,087,423 and other commitments of $106,732. These commitments extend for 9 years, with $3,508,876 to be fulfilled before December 31, 2010 (of which $2,060,826 related to property, plant and equipment, $313,609 related to raw materials, $1,087,423 related to goods and services and other commitments of $47,018) and $908,618 (of which $530,053 related to property, plant and equipment, $318,852 related to raw materials, other commitments of $59,713) to be fulfilled thereafter.

Included in the commitments related to acquisition of property, plant and equipment are amounts arising from the Purchase and Sale Agreement in respect of railway construction for the Elgaugol project. The total amount of remaining commitments under the construction contract as of December 31, 2009 is equal to $1,214,788. In February 2010, this agreement was cancelled by the parties and replaced by short-term contracts linked to separate construction stages completion and concluded with different contractors.

The BCG Companies utilize coal preparation and loading facilities on its property that are owned and operated by third parties. The agreements covering the BCG Companies use of these facilities expire in 2016 and require minimum payment amounts should the BCG Companies fail to achieve defined throughput levels. These minimum amounts total $4,060 annually for the period from December 31, 2009 to December 31, 2014 and $6,600 in the aggregate for the period thereafter.

Contingencies

(a) Guarantees

As of December 31, 2009, the Group guaranteed the fulfillment of obligations to third parties under various debt and lease agreements for the total amount of $5,009,367. The guarantees given under the various agreements of the Group to third parties for its own subsidiaries amounted to $5,005,714 and $3,653 for individuals, respectively. In case the borrower fails to fulfill its obligations under the loan agreement, the Group repays the outstanding amount under the debt agreement with all interests, fines and penalties due.

Included into the above guarantees are the following:

- the guarantee arising under the $2,600,000 "Yakutugol" and "Oriel" credit facilities (refer to Note 15), that is jointly guaranteed by Mechel Mining OAO, Mechel OAO, Yakutugol, MTH and Mechel Trading Ltd. for a total of $2,348,996;
- the limited guarantee issued by Mechel Mining OAO in the amount of $1,000,000 in favor of James C. Justice Companies Inc. under the Mechel Mining OAO Drilling Program Agreement (refer to Note 4(a));
- the guarantees issued by Mechel OAO under the Gazprombank, VTB and Sberbank credit facilities amounted to $198,583, $501,097 and $129,132, respectively;
- the guarantees issued by MTH in the amount of $165,892 under the National Deposit Center loan to Mechel OAO; and $49,955 under the UniCredit Bank loan to SKCC;
- the guarantee issued by Mechel OAO in the amount of $32,939 under Brunswick Rail Leasing Limited lease agreement to Mechel Trans;
- the remaining guarantees were issued by other Group's subsidiaries under various loan agreements described in Note 15.

(b) 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. The BCG Companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters, which could impose additional costs to the Group. The U.S. regulatory agencies have the authority to temporarily or permanently close the BCG Companies' mines or modify their operations because the operations of the BCG Companies may impact the environment or cause or contribute to contamination or exposure to hazardous substances, which could result in environmental liabilities and limit the Group's ability to produce and sell coal in the United States. 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.

In 2008, Pinnacle Mining Company ("Pinnacle") filed a suit against the Group's US subsidiary and a third party engineering firm in the U.S. District Court for the Southern District of Beckley, West Virginia. Pinnacle asserts claims against defendants for negligence, strict liability, violation of the Federal Surface Mining Control and Reclamation Act, and injunctive relief. The case arises from mining activity by the Group's subsidiary in the "safety zone" of a coal slurry impoundment maintained by Pinnacle. The parties filed a joint motion to stay, and the court granted the stay, which has allowed additional time for the regulatory agencies involved to determine what steps are necessary for remediation. A plan has been submitted by the defendants and was approved by the West Virginia Department of Environmental Protection ("WVDEP"). The Group is vigorously defending the matter and has asserted issues of comparative fault by the plaintiff and the Group's engineering company at the time of the incident (November 2007). Currently, an evaluation of the likelihood of success on this case is not possible. The regulatory agency will ultimately determine the resolution of this matter. Although some initial indications from WVDEP suggested that grouting of the mine may be the required remediation, recent developments indicate that the remediation could be less extensive. If grouting would be determined to be necessary, the estimated cost could be $50,000. The Group has full indemnity from the BCG Companies' previous owner in accordance with terms of acquisition agreement.

The Group estimated the total amount of capital investments to address environmental concerns at its various subsidiaries at $39,724 as of December 31, 2009. These amounts are not accrued in the consolidated financial statements until actual capital investments are made.

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.

(c) EU ascension commitments

Integration of Romania into the European Union ("EU") required, in particular, adoption of a new national strategy aimed at restructuring of major metallurgical entities, including Mechel Targoviste S.A., Mechel Campia Turzii S.A. and Ductil Steel S.A. As an integral part of the restructuring process, individual viability plans agreed with EU consultants are to be incorporated into the business plans of all entities. Implementation of these plans and achievement of the targets should to be provided by investors in accordance with their contractual obligations under privatization contracts. Viability plans of Mechel Targoviste S.A., Mechel Campia Turzii S.A. and Ductil Steel S.A. include additional investments into technology development and ecology improvement. After restructuring completion, key business performance indicators of both companies are to be in line with effectiveness requirements of the EU.

(d) Taxation

The Group is subject to taxation to the largest extent in Russia, and secondarily in other jurisdictions. 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 the tax authorities are taking a 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 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.

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 embodying economic benefits, which will be required to settle these liabilities. In accordance with FASB ASC 450, "Contingencies" ("ASC 450"), the Group accrued $11,856 and $6,343 of other tax claims that management believes are probable, as of December 31, 2009 and 2008, respectively. In addition, income tax accrual was made under ASC 740 (refer to Note 21).

As of December 31, 2009, 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 and largely related to mineral extraction tax are not accrued in the consolidated financial statements. The amount of such liabilities was not significant.

(e) Litigation, claims and assessments

The Group is subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes and other claims and actions arising out of the normal course of business. In the cases related to the U.S. subsidiaries, insurance or other indemnification protection available to the Group from the previous owners, which should offset the financial impact on the Group, if any. Therefore, management's current estimates related to these pending claims, individually and in the aggregate, are immaterial to the financial position, results of operations or cash flows of the Group. If the Group is unable to recover the losses from the previous owners, it is reasonably possible that the ultimate liabilities with respect to these lawsuits and claims may be material to the financial position, results of operations or cash flows of the Group.

In March 2009, Dean Frederick, a minority Group's shareholder, filed a court suit in the Southern district court of New York, USA, claiming that the Group had not disclosed significant facts of the Group's financial position, business activities among the Group's subsidiaries and improper conduct of business through the use of transfer pricing on sales of coal and tax evasion. Claims were based on the Federal Antimonopoly Service ("FAS") decision and press publications around it. The amount of claims and evidences of the Group's alleged wrong-doing were not stated in the suit. The Group plans to submit a petition asking for a dismissal of the case. Management cannot predict the outcome of the suit but expects to be able to defend its position in court.

In May 2009, Suncoke served the Group's US subsidiary with the claim for failure of performance of its obligations under contracts to supply coal to Suncoke in 2008. Suncoke has not made any further legal actions against the Group since that time. The Group is defending on the grounds that Suncoke was able to cover the subject coal at no additional cost to Suncoke and Suncoke was also in violation of its contractual obligations in 2008 for not accepting delivery of the tonnage as provided in the contract agreement. The maximum amount of this claim is $67,046. The Group has full indemnity from the BCG Companies' previous owner in accordance with terms of acquisition agreement, which shall offset negative influence of the outcome of this claim on its financial position, if any.

The Group's US subsidiary is a defendant in a case brought in September 2008 in the Circuit Court of Ohio County by Mountain State Carbon, LLC. The lawsuit alleges breach of contract, implied duty of good faith and fair dealing against the Group's US subsidiary. Mountain State claims damages of $4,500. The Group has full indemnity from the BCG Companies' previous owner in accordance with terms of the acquisition agreement, which shall offset negative influence of this claim outcome on its financial position, if any.

In April 2009, Chelyabenergosbyt OAO filed a court suit against CMP, claiming payments for services provided on energy transmission. The total claim amount equals to $6,890 as of April 21, 2010. While the initial court decisions were unfavorable to CMP, in March 2010, the execution of these decisions was temporary suspended. The risk that CMP will be forced to pay the claimed amount is estimated as possible.

As of December 31, 2009, $55,984 included in Cash (refer to Note 5) was restricted for use in accordance with various guarantees provided by BNP Paribas to the Group's subsidiaries. In February 2010, the Group signed a settlement agreement with BNP Paribas in accordance with which BNP Paribas irrevocably agreed to release the above stated funds and the Group agreed to withdraw the proceedings against BNP Paribas before the Geneva District Court. Further BNP Paribas is entitled to retain on any of the Group accounts the amount equivalent to the BNP Paribas's exposure in principal and interests under two bank guarantees issued by BNP Paribas in favor of the Group's subsidiaries totaling to $3,388. MIH shall pay an amount of $75,124 to the cash collateral account in BNP Paribas in seven equal monthly installments starting from June 1, 2010.

(f) Russian business environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. These considerations similarly apply to other jurisdictions where the Group operates.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

27. SUBSEQUENT EVENTS

New acquisitions

Laminorul SA

On February 25, 2010, the Group acquired 100% of the shares of Donau Commodities SRL, which holds 90.9% of interest in ownership of Laminorul SA, a steel plant located in Braila, Romania, for a consideration of 9,409 Euros subject to a final price adjustment. The final price adjustment is expected to be agreed by the end of April 2010. The acquisition is consistent with the Group's program to expand its production and sales of steel products, in particular related to construction and building industries of Romania. The acquisition will be accounted for using the purchase method of accounting from the date of acquisition of control.

Ramateks

On March 24, 2010, the Group signed a selling and purchase agreement with the Ramateks shareholders for the acquisition of Ramateks Group of companies for $3,000 paid in cash. Ramateks Group includes two trading entities selling primarily steel products in Turkey. The control over the company will be obtained at the losing date, which is pending upon certain closing conditions from both the seller and the Group, and the Group expects that the closing date will be June 1, 2010. The acquisition is consistent with the Group's program to expand its sales network and enlarge its client base. The acquisition will be accounted for using the purchase method of accounting from the date of acquisition of control.

Related parties

DEMP

In the first quarter of 2010, the Group received an opportunity granted by owners and management of Donetsk Electrometallurgical Plant ("DEMP") to influence sales and operating policies through the representation in the board of directors, management and other arrangements. In March 2010, the Group entered into steel products purchase contract with DEMP on market terms applicable for relevant steel products. The Group intends to disclose DEMP as a related party since March 2010.

Placement of bonds

On March 16, 2010, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($170,443 as of the placement date). The bonds were issued at 100% of their par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 9.75% p.a. The interest rate for the second to the six coupon periods is set as equal to that of the first period. The obligatory redemption date is March 12, 2013.

On April 12, 2010, the Group obtained an admission to place a bond issue in the amount of 13 billion rubles ($443,335), of which 10 billion rubles ($343,193) will be placed in April 2010.

New borrowings

In January 2010, the Group's subsidiaries obtained loans in the amount of 1 billion Russian rubles ($33,615 as of the date of the agreement) from Urals Reconstruction and Development Bank repayable in 2011 bearing interest rate at 9% p.a.

In January 2010, the Group's subsidiaries obtained loans in the amount of 273 million Russian rubles ($9,178 as of the date of the agreement) from Sberbank repayable in 2011 bearing interest rate at 12-13% p.a. secured by the pledge of equipment and assets.

In February 2010, the Group's subsidiaries obtained loans in the amount of 3.5 billion Russian rubles ($116,211 as of the date of the agreement) from Sberbank repayable in 2011 bearing interest rate at 11.75 - 12.25% p.a. and secured by the pledge of equipment and assets.

In March 2010, the Group's subsidiaries obtained loans in the amount of $29,000 from UniCredit Bank repayable in 2015 bearing interest rate at LIBOR plus 5.6% p.a. secured by the pledge of inventory and equipment.

In March 2010, the Group's subsidiaries obtained loans in the amount of $100,000 from Alfa-bank repayable in September 2010 bearing interest rate at 8% p.a.

In April 2010, the Group's subsidiaries obtained loans in the amount of 25 million Euros ($34,003 as of the date of the agreement) from Uralsib Bank repayable in 2011 bearing interest rate at 6.5-7.5% p.a.

In April 2010, the Group's subsidiaries obtained loans in the amount of 1.3 billion Russian rubles ($44,972 as of the date of the agreement) from SKB Bank repayable in 2015 bearing interest rate at 15% p.a. and secured by the pledge of equipment.

Changes in tax legislation

In 2010, some changes were introduced to the Russian tax legislation. The UST will be replaced by direct insurance contributions to the following national extra-budgetary funds: contributions to the Russian Pension Fund will amount to 20% of the annual gross salary of each employee, contributions to the Fund of obligatory medical insurance will amount to 3.1%, and contributions to the Social Insurance Fund will amount to 2.9%. It is also expected that in 2011 the contribution to the Russian Pension Fund will be further increased to 26%.