MECHEL

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014, 2013 and 2012

CONTENTS

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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, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 2 to the financial statements, the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, has not complied with certain covenants of its major loan agreements with banks and is dependent upon reaching agreements with its banks to refinance or restructure its debt obligations. These conditions raise substantial doubt about the Group's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 28, 2015 expressed an unqualified opinion thereon.

Ernst & Young LLC

April 28, 2015

MECHEL OAO

Consolidated Balance Sheets

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

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Cash and cash equivalents	**5**	**$ 70,800**	$ 272,936
Accounts receivable, net of allowance for doubtful accounts of $68,493 in 2014 and $81,803 in 2013	**6**	**330,371**	587,999
Due from related parties, net of allowance of $1,458,296 in 2014 and $1,623,661 in 2013	**10**	**9,303**	56,792
Inventories	**7**	**640,671**	1,407,868
Deferred income taxes	**20**	**91,223**	25,092
Current assets of discontinued operations	**4(c)**	**151,602**	25,159
Prepayments and other current assets	**8**	**238,314**	439,624
Total current assets		**1,532,284**	2,815,470
Long-term investments in related parties	**9**	**6,142**	7,604
Other long-term investments	**9**	**4,060**	14,787
Property, plant and equipment, net	**11**	**3,944,427**	6,726,116
Mineral licenses, net	**12**	**719,951**	1,293,470
Other non-current assets	**13**	**30,453**	127,861
Deferred income taxes	**20**	**72,966**	5,066
Goodwill	**4(e)**	**403,207**	687,763
Non-current assets of discontinued operations	**4(c)**	**–**	2,156,373
Total assets		**$ 6,713,490**	$ 13,834,510
LIABILITIES AND EQUITY			
Short-term borrowings and current portion of long-term debt	**14**	**$ 6,678,549**	$ 1,478,154
Accounts payable and accrued expenses:			
Trade payable to vendors of goods and services		**537,004**	929,375
Advances received		**81,599**	140,919
Accrued expenses and other current liabilities		**811,345**	343,457
Taxes and social charges payable		**215,251**	264,861
Unrecognized income tax benefits	**20**	**31,444**	78,332
Due to related parties	**10**	**15,494**	106,943
Asset retirement obligations, current portion	**16**	**3,478**	2,001
Deferred income taxes	**20**	**7,893**	37,775
Current liabilities of discontinued operations	**4(c)**	**150,033**	57,781
Pension obligations, current portion	**17**	**18,656**	18,578
Dividends payable		**1,843**	3,293
Finance lease liabilities, current portion	**18**	**270,980**	122,754
Total current liabilities		**8,823,569**	3,584,223
Long-term debt, net of current portion	**14**	**166,532**	7,513,277
Asset retirement obligations, net of current portion	**16**	**43,712**	50,567
Pension obligations, net of current portion	**17**	**60,222**	104,525
Deferred income taxes	**20**	**179,987**	506,241
Finance lease liabilities, net of current portion	**18**	**2,813**	296,875
Due to related parties	**10**	**38**	21
Long-term liabilities of discontinued operations	**4(c)**	**–**	673,591
Commitments and contingencies	**26**		
Other long-term liabilities		**81,288**	293,370
EQUITY			
Common shares (10 Russian rubles par value; 497,969,086 shares authorized, 416,270,745 shares issued and outstanding as of December 31, 2014 and 2013)	**19**	**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, 2014 and 2013)	**19**	**25,314**	25,314
Additional paid-in capital		**834,136**	834,118
Accumulated other comprehensive income (loss)		**972,381**	(47,601)
Accumulated deficit		**(4,763,413)**	(427,863)
Equity attributable to shareholders of Mechel OAO		**(2,798,075)**	517,475
Noncontrolling interests	**4(f)**	**153,404**	294,345
Total equity		**(2,644,671)**	811,820
Total liabilities and equity		**$ 6,713,490**	$ 13,834,510

See accompanying notes to consolidated financial statements.

MECHEL OAO

Consolidated Statements of Operations and Comprehensive Income (Loss)
(in thousands of U.S. dollars, except share and per share amounts)

	Notes	Year ended December 31, 2014	2013	2012
Revenue, net (including related party amounts of $112,010, $237,071 and $738,317 during 2014, 2013 and 2012, respectively)	25	**$ 6,405,767**	**$ 8,505,931**	$ 10,753,513
Cost of goods sold (including related party amounts of $111,178, $594,421and $844,214 during 2014, 2013 and 2012, respectively)		**(4,031,657)**	**(5,845,752)**	(7,435,537)
Gross profit	25	**2,374,110**	**2,660,179**	3,317,976
Selling, distribution and operating expenses:				
Selling and distribution expenses		**(1,460,641)**	**(1,720,411)**	(1,710,577)
Taxes other than income tax	21	**(172,447)**	**(125,572)**	(128,884)
Accretion expense	16	**(4,963)**	**(4,524)**	(3,842)
Loss on write-off of property, plant and equipment	11	**(17,395)**	**(17,254)**	(10,879)
Impairment of goodwill and long-lived assets	24	**(120,237)**	**(215,727)**	(607,877)
Provision for amounts due from related parties	10	**(41,425)**	**(714,181)**	(919,113)
Provision for doubtful accounts		**(37,968)**	**(9,162)**	(27,579)
General, administrative and other operating expenses, net	22	**(392,606)**	**(510,105)**	(506,821)
Total selling, distribution and operating expenses, net		**(2,247,682)**	**(3,316,936)**	(3,915,572)
Operating income (loss)		**126,428**	**(656,757)**	(597,596)
Other income and (expense):				
Income from equity investments	9	**276**	**3,589**	475
Interest income		**2,398**	**7,330**	70,178
Interest expense		**(793,228)**	**(740,601)**	(649,760)
Foreign exchange (loss) gain		**(2,396,123)**	**(164,768)**	107,541
Other (expenses) income, net	23	**(9,613)**	**(74,571)**	33,103
Total other income and (expense), net		**(3,196,290)**	**(969,021)**	(438,463)
Loss from continuing operations, before income tax		**(3,069,862)**	**(1,625,778)**	(1,036,059)
Income tax benefit (expense)	20	**183,908**	**(79,092)**	(242,601)
Net loss from continuing operations		**(2,885,954)**	**(1,704,870)**	(1,278,660)
Loss from discontinued operations, net of income tax	4(c)	**(1,473,780)**	**(1,218,097)**	(386,225)
Net loss		**(4,359,734)**	**(2,922,967)**	(1,664,885)
Less: Net loss (income) attributable to noncontrolling interests	4(f)	**24,308**	**(5,047)**	317
Net loss attributable to shareholders of Mechel OAO		**(4,335,426)**	**(2,928,014)**	(1,664,568)
Less: Dividends on preferred shares	19	**(124)**	**(127)**	(79,056)
Net loss attributable to common shareholders of Mechel OAO		**$ (4,335,550)**	**$ (2,928,141)**	$ (1,743,624)
Net loss		**$ (4,359,734)**	**$ (2,922,967)**	$ (1,664,885)
Currency translation adjustment		**923,929**	**(96,848)**	70,893
Transfer of currency translation adjustment due to disposal of subsidiaries		**–**	**340,014**	–
Change in pension benefit obligation		**(21,889)**	**8,244**	(17,778)
Adjustment of available-for-sale securities		**1,293**	**2,171**	(300)
Comprehensive loss		**(3,456,401)**	**(2,669,386)**	(1,612,070)
Comprehensive loss (income) attributable to noncontrolling interests		**140,957**	**20,704**	(22,851)
Comprehensive loss attributable to shareholders of Mechel OAO		**$ (3,315,444)**	**$ (2,648,682)**	$ (1,634,921)
Basic and diluted (loss) earnings per share:				
Loss per share from continuing operations	19	$ **(6.86)**	**$ (4.11)**	$ (3.32)
Loss per share effect from discontinued operations	19	**(3.56)**	**(2.92)**	(0.87)
Net loss per share		**$ (10.42)**	**$ (7.03)**	$ (4.19)
Weighted average number of shares outstanding	19	**416,270,745**	**416,270,745**	416,270,745

See accompanying notes to consolidated financial statements.

MECHEL OAO

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

	Notes	Year ended December 31, 2014	2013	2012
Cash Flows from Operating Activities				
Net loss		**$ (4,359,734)**	**$ (2,922,967)**	$ (1,664,885)
Loss from dicontinuing operations, net of income tax		**$ 1,473,780**	**$ 1,218,097**	$ 386,225
Net loss from continuing operations		**$ (2,885,954)**	**$ (1,704,870)**	$ (1,278,660)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:				
Depreciation		**322,747**	**366,850**	363,904
Depletion and amortization		**47,797**	**58,432**	57,956
Foreign exchange loss (gain)		**2,396,123**	**164,768**	(107,541)
Deferred income taxes	**20**	**(354,918)**	**(29,750)**	876
Allowance for doubtful accounts		**37,968**	**9,162**	27,579
Change in inventory reserves	**7**	**5,779**	**3,414**	32,637
Accretion expense	**16**	**4,963**	**4,524**	3,842
Loss on write-off of property, plant and equipment	**11**	**17,395**	**17,254**	10,879
Income from equity investments	**9**	**(276)**	**(3,589)**	(475)
Impairment of goodwill and long-lived assets	**24**	**120,237**	**215,727**	607,877
Provision for taxes restructuring		**31,950**	**–**	–
Allowance for amounts due from related parties	**10**	**41,425**	**714,181**	919,113
Non-cash interest on pension liabilities	**17**	**5,513**	**9,463**	9,682
Loss (gain) on sale of property, plant and equipment		**1,709**	**4,907**	(4,663)
Gain on sale of investments		**(14,050)**	**(2,466)**	(2,166)
Change in asset retirement obligations		**(1,505)**	**(7,123)**	(4,004)
Gain on accounts payable with expired legal term	**23**	**(930)**	**(11,324)**	(4,043)
Loss on disposal of subsidiaries	**23**	**–**	**76,814**	–
Gain on forgiveness of fines and penalties	**23**	**(28)**	**(2,550)**	(2,777)
Amortization of loan origination fee		**56,864**	**51,017**	50,211
Pension benefit plan curtailment gain	**17**	**(1,914)**	**(3,906)**	(1,360)
Pension service cost, amortization of prior service cost and actuarial (gain) loss, other expenses	**17**	**(898)**	**3,853**	1,253
Other	**23**	**23,051**	**–**	–
Changes in working capital items, net of effects from acquisition of new subsidiaries:				
Accounts receivable		**53,627**	**63,113**	41,923
Inventories		**400,901**	**486,635**	629,652
Trade payable to vendors of goods and services		**3,216**	**114,153**	56,355
Advances received		**4,530**	**(9,382)**	(56,735)
Accrued taxes and other liabilities		**516,996**	**91,113**	26,302
Settlements with related parties		**(58,195)**	**(481,118)**	(224,875)
Other current assets		**21,345**	**26,281**	68,997
Dividends received		**–**	**–**	25,956
Unrecognized income tax benefits		**(30,378)**	**61,230**	17,598
Net operating cash flows of discontinued operations		**(20,463)**	**39,757**	45,303
Net cash provided by operating activities		**744,627**	**326,570**	1,310,596

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

	Notes	Year ended December 31, 2014	2013	2012
continued from previous page				
Cash Flows from Investing Activities				
Acquisition of DEMP, less cash acquired		**(85,215)**	**(66,049)**	(32,810)
Acquisition of Cognor, less cash acquired	4(a)	**–**	**–**	(24,172)
Acquisition of Lomprom Rostov, less cash acquired	4(b)	**–**	**–**	(24)
Acquisition of Port Vanino		**–**	**(662,911)**	–
Disposal of Port Vanino		**–**	**664,006**	–
Advance payment received in association with sale of TPP Rousse shares		**–**	**–**	2,640
Acquisition of other subsidiaries, less cash acquired		**–**	**894**	–
Purchase of trading and investment securities		**(2,160)**	**–**	–
Proceeds from disposal of investments in affiliates		**–**	**–**	2,998
Proceeds from disposal of securities		**15,855**	**1,111**	–
Loans issued and other investments		**(983)**	**(1,524)**	(4,447)
Proceeds from disposal of TPP Rousse, less cash disposed of		**2,152**	**27,506**	–
Proceeds from disposal of Invicta, less cash disposed of		**690**	**–**	–
Proceeds from disposal of TFP, Voskhod-Oriel, Voskhod-Chrome, Voskhod Trading, less cash disposed of		**15,096**	**414,197**	–
Cash of other subsidiaries disposed of, less proceeds from disposal		**–**	**(731)**	–
Proceeds from loans issued		**1,860**	**7,328**	217,786
Proceeds from disposals of property, plant and equipment		**24,191**	**15,170**	22,872
Purchases of mineral licenses and other related payments		**–**	**(2,238)**	(6,079)
Purchases of property, plant and equipment		**(443,668)**	**(550,188)**	(943,963)
Net investing cash flows of discontinued operations		**(114)**	**(26,160)**	(73,938)
Net cash used in investing activities		**(472,296)**	**(179,589)**	(839,137)
Cash Flows from Financing Activities				
Proceeds from borrowings		**1,815,966**	**2,958,658**	3,934,642
Repayment of borrowings		**(2,185,343)**	**(2,935,382)**	(4,191,946)
Dividends paid		**(112)**	**(222)**	(186,443)
Dividends paid to noncontrolling interest		**(136)**	**(7,496)**	(29,054)
Acquisition of noncontrolling interest in subsidiaries	4(f)	**(40,043)**	**(45,536)**	(632)
Repayment of obligations under finance lease		**(44,312)**	**(138,225)**	(121,207)
Sale leaseback proceeds		**18,210**	**74,340**	3,143
Net financing cash flows of discontinued operations		**(2,719)**	**(68,208)**	(200,509)
Net cash used in financing activities		**(438,489)**	**(162,071)**	(792,006)
Effect of exchange rate changes on cash and cash equivalents		**(35,965)**	**(5,328)**	(27,875)
Net decrease in cash and cash equivalents		**(202,123)**	**(20,418)**	(348,422)
Cash and cash equivalents at beginning of period	5	**274,539**	**294,957**	643,379
Cash and cash equivalents at end of period	5	**$ 72,416**	**$ 274,539**	$ 294,957
Supplementary Cash Flow Information				
Interest paid, net of amount capitalized		**$ 453,190**	**$ 642,546**	$ 548,858
Income taxes paid		**$ 58,739**	**$ 57,741**	$ 212,962
Non-cash Activities				
Acquisition of equipment under finance lease		**$ 67,462**	**$ 53,163**	$ 131,846

See accompanying notes to consolidated financial statements.

MECHEL OAO

Consolidated Statements of Equity

(in thousands of US dollars, except share numbers)

	Notes	Common shares: Shares	Common shares: Amount	Preferred shares: Shares	Preferred shares: Amount	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings (accumulated deficit)	Equity attributable to shareholders of Mechel OAO	Non-controlling interests	Total equity
Balance at December 31, 2011		**$ 416,270,745**	**$ 133,507**	**83,254,149**	**$ 25,314**	**$ 845,994**	**$ (356,580)**	**$ 4,345,754**	**$ 4,993,989**	**$ 371,337**	**$ 5,365,326**
Net loss		–	–	–	–	–	–	(1,664,568)	**(1,664,568)**	(317)	**(1,664,885)**
Dividends declared to shareholders of Mechel OAO	**19**	–	–	–	–	–	–	(180,908)	**(180,908)**	**–**	**(180,908)**
Dividends declared to noncontrolling interest		–	–	–	–	–	–	–	**–**	(32,113)	**(32,113)**
Cumulative translation adjustment		–	–	–	–	–	47,725	–	**47,725**	23,168	**70,893**
Adjustment of available-for-sale securities		–	–	–	–	–	(300)	–	**(300)**	**–**	**(300)**
Change in pension benefit obligation	**4(f)**	–	–	–	–	–	(17,778)	–	**(17,778)**	**–**	**(17,778)**
Acquisitions of noncontrolling interests and effect of changes in ownership of subsidiaries within the Group		–	–	–	–	(779)	–	–	**(779)**	201	**(578)**
Balance at December 31, 2012		**$ 416,270,745**	**$ 133,507**	**83,254,149**	**$ 25,314**	**$ 845,215**	**$ (326,933)**	**$ 2,500,278**	**$ 3,177,381**	**$ 362,276**	**$ 3,539,657**
Net (loss) income		–	–	–	–	–	–	(2,928,014)	**(2,928,014)**	5,047	**(2,922,967)**
Dividends declared to shareholders of Mechel OAO	**19**	–	–	–	–	–	–	(127)	**(127)**	–	**(127)**
Dividends declared to noncontrolling interest		–	–	–	–	–	–	–	**–**	(8,876)	**(8,876)**
Disposal of subsidiaries		–	–	–	–	–	–	–	**–**	37,729	**37,729**
Transfer of currency translation adjustment due to disposal of subsidiaries		–	–	–	–	–	340,014	–	**340,014**	–	**340,014**
Cumulative translation adjustment		–	–	–	–	–	(71,097)	–	**(71,097)**	(25,751)	**(96,848)**
Adjustment of available-for-sale securities		–	–	–	–	–	2,171	–	**2,171**	–	**2,171**
Change in pension benefit obligation		–	–	–	–	–	8,244	–	**8,244**	–	**8,244**
Acquisitions of noncontrolling interests and effect of changes in ownership of subsidiaries within the Group		–	–	–	–	(11,097)	–	–	**(11,097)**	(76,080)	**(87,177)**
Balance at December 31, 2013		**$ 416,270,745**	**$ 133,507**	**83,254,149**	**$ 25,314**	**$ 834,118**	**$ (47,601)**	**$ (427,863)**	**$ 517,475**	**$ 294,345**	**$ 811,820**
Net loss		–	–	–	–	–	–	(4,335,426)	**(4,335,426)**	(24,308)	**(4,359,734)**
Dividends declared to shareholders of Mechel OAO	**19**	–	–	–	–	–	–	(124)	**(124)**	–	**(124)**
Dividends declared to noncontrolling interest		–	–	–	–	–	–	–	**–**	(50)	**(50)**
Cumulative translation adjustment		–	–	–	–	–	1,040,578	–	**1,040,578**	(116,649)	**923,929**
Adjustment of available-for-sale securities		–	–	–	–	–	1,293	–	**1,293**	–	**1,293**
Change in pension benefit obligation		–	–	–	–	–	(21,889)	–	**(21,889)**	–	**(21,889)**
Sale of subsidiaries' shares to noncontrolling interest	**4(f)**	–	–	–	–	18	–	–	**18**	66	**84**
Balance at December 31, 2014		**$ 416,270,745**	**$ 133,507**	**83,254,149**	**$ 25,314**	**$ 834,136**	**$ 972,381**	**$ (4,763,413)**	**$ (2,798,075)**	**$ 153,404**	**$ (2,644,671)**

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, 2014	2013	2012
Mechel International Holdings GmBH (MIH) [1]...	Switzerland	Holding and trading	July 1, 1995	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)	Russia	Coal mining	Jan 21, 1999	96.6%	96.6%	96.6%
Tomusinsky Open Pit Mine (TOPM) [2]	Russia	Coal mining	Jan 21, 1999	64.3%[2]	74.7%	74.5%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	Dec 27, 2001	94.2%	94.2%	94.2%
Southern Urals Nickel Plant (SUNP)..................	Russia	Nickel	Dec 27, 2001	84.1%	84.1%	84.1%
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	91.5%	91.5%	91.5%
Mechel Targoviste S.A. [3]..................................	Romania	Steel products	Aug 28, 2002	–	–	86.6%
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	90.0%	90.0%	85.6%
Mechel Campia Turzii S.A. [3]	Romania	Steel products	June 20, 2003	–	–	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	90.0%	90.0%	90.0%
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%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	Oct 4, 2006	99.5%	99.5%	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 19, 2007	98.3%	98.3%	98.3%
Kuzbass Power Sales Company (KPSC)............	Russia	Power sales	June 30, 2007	72.1%	72.1%	72.1%
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%
Mechel-Carbon	Switzerland	Trading	April 2, 2008	100.0%	100.0%	100.0%
Ductil Steel S.A. (Ductil Steel) [3]	Romania	Steel products	April 8, 2008	–	–	100.0%
Oriel Resources Ltd. (Oriel)	Great Britain	Holding	Apr 17, 2008	100.0%	100.0%	100.0%
Tikhvin Ferroalloy Plant (TFP) [4]	Russia	Ferrochrome production	Apr 17, 2008	–	–	100.0%
Voskhod Mining Plant [5]...	Kazakhstan	Chrome mining	Apr 17, 2008	–	–	100.0%
Mechel Mining OAO [6]	Russia	Holding	Apr 18, 2008	100%[6]	100%[6]	98.69%
HBL Holding GmbH (HBL)	Germany	Trading	Sept 26, 2008	100.0%	100.0%	100.0%
Mechel Remservice..	Russia	Repairs	Feb 9, 2009	100.0%	100.0%	100.0%
The BCG Companies	USA	Coal mining	May 7, 2009	100.0%	100.0%	100.0%
Laminorul S.A. [3]	Romania	Steel products	Feb 25, 2010	–	–	90.9%
Ramateks..	Turkey	Trading	June 18, 2010	100.0%	100.0%	100.0%
Toplofikatsia Rousse (TPP Rousse) [7].................	Bulgaria	Power generation	Dec 9, 2010	–	–	100.0%
Mechel Mining Trading House [8]........................	Russia	Trading	May 19, 2011	–	100.0%	100.0%
Invicta Merchant Bar [9]	Great Britain	Steel products	Aug 22, 2011	–	–	100.0%
Donetsk Electrometallurgical Plant (DEMP).......	Ukraine	Steel products	Dec 22, 2011	100.0%	100.0%	100.0%
Cognor Stahlhandel GmBH (Cognor)................	Austria	Trading	Sep 25, 2012	100.0%	100.0%	100.0%
Lomprom Rostov [10]..	Russia	Scrap processing	Nov 22, 2012	–	–	100.0%
Elgaugol [11]...	Russia	Coal mining	Aug 14, 2013	99.9%[11]	100.0%	–

* Date, when a control interest was acquired or a new company established by either the Group or Controlling Shareholders.

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

[2] As of December 31, 2014, the voting interest reflected the dividends paid to the holders of preferred shares (before the dividends payment the Group's interest was 74.7%).

[3] Mechel Targoviste S.A., Mechel Campia Turzii S.A., Ductil Steel S.A. and Laminorul S.A. were disposed of on February 15, 2013.

[4] Tikhvin Ferroalloy Plant was disposed of on December 27, 2013.

[5] Voskhod Mining Plant, which includes Voskhod-Oriel, Voskhod-Chrome and Voskhod-Trading, was disposed of on December 27, 2013.

[6] Interest in voting stock of Mechel Mining OAO is 99.999995% as of December 31, 2014 and 2013.

[7] Toplofikatsia Rousse was disposed of on July 5, 2013.

[8] Mechel Mining Trading House was liquidated on October 20, 2014.

[9] Invicta Merchant Bar was disposed of on July 18, 2013.

[10] Lomprom Rostov was disposed of on July 17, 2013.

[11] Elgaugol was incorporated on August 14, 2013. Interest in share of Elgaugol is 99.993% as of December 31, 2014.

(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 noncontrolling interest in the subsidiaries. Thus, to the extent noncontrolling interests existed in the entities under common control prior to March 19, 2003, such noncontrolling 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 similar to a pooling for the periods presented.

(d) Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity and heat power), and conducts operations in Russia, Ukraine, Turkey, Kazakhstan, the USA and Europe. The Group sells its products within Russia and foreign markets. Through acquisitions, the Group has added various businesses to explore new opportunities and build an integrated steel, mining, ferroalloy and power group. The Group operates in a highly competitive and cyclical industry; any local or global downturn in the industries may have an adverse effect on the Group's results of operations and financial condition. 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. As discussed in Note 2, management believes that the Group will secure adequate financing.

2. GOING CONCERN

The current economic environment and conditions in the major segments of the Group's operations create uncertainty about the level of demand for the Group's products, the pricing of major products mined or manufactured by the Group and the availability of financing.

As of December 31, 2014, the Group was not in compliance with certain financial and non-financial covenants contained in the Group's loan agreements relating to $6,378,459 of the Group's debt. In addition, there was a default on payments of principal and interest to certain lenders and lessors. As of the date when the financial statements were issued, these breaches constitute an event of default and, as a result, the lenders can request accelerated repayment of a substantial portion of the Group's long-term debt and lease liabilities. As of December 31, 2014, one of the Group's lenders requested accelerated repayment of amounts due under the respective loan agreements. In February, 2015, one of the Group's lessors requested accelerated repayment of amounts due under the lease agreements. As of the date when the financial statements were issued, the other lenders have not requested accelerated repayment but have the legal right to do so. As of December 31, 2014, the Group had $6,678,549 of loans repayable during 2015 including $4,297,512 of long-term debt classified as short-term liabilities as of that date because of the covenant violations. The Group does not have the resources to enable it to comply with such accelerated repayment requests immediately.

The Group's total liabilities exceeded total assets by $2,644,671 as of December 31, 2014.

In addition to the extended maturity discussed above, the Group is negotiating with its creditors to refinance and amend the terms and conditions of its existing debt to extend maturities beyond December 31, 2015 and align the servicing of the debt with the projected cash flows to be generated by the Group in 2015 and onwards. Based on negotiations conducted to date, management believes that it will successfully refinance or restructure its short-term debt.

Additionally, the Group is included in the Russian Federation's list of strategic businesses that are eligible for state financial support in the current economic environment. There is no assurance, however, as to how much state financial support, if any, may be received by the Group.

Management has concluded that the uncertainty about the Group's refinancing and restructuring of its outstanding debt described above represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Based on management's plans as noted herein, management believes that the Group will secure adequate financing to continue in operational existence for the foreseeable future

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might be needed if the Group is unable to continue as a going concern.

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.

(b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of all majority owned subsidiaries where no noncontrolling interests or group of noncontrolling 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.

Effective January 1, 2010, the Group adopted required changes to consolidation guidance for variable interest entities that require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. These changes to the consolidation guidance defined the primary beneficiary of a variable interest entity as the enterprise that has (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, the required changes provide guidance on shared power and joint venture relationships, remove the scope exemption for qualified special purpose entities, revise the definition of a variable interest entity, and require additional disclosures.

The adoption of the above mentioned changes to consolidation guidance did not have any impact on the consolidated financial statements of the Group. The Group does not have significant consolidated variable interest entities.

(c) Business combinations

The Group accounts for its business acquisitions according to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 noncontrolling 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 noncontrolling 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 noncontrolling interests is recognized as a gain in the consolidated statements of operations and comprehensive income (loss) 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) Noncontrolling interest

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

(f) Reporting and functional currencies

The Group has determined its reporting currency to be the U.S. dollar. The functional currencies for Russian, European, Romanian, Ukrainian, Kazakh, Bulgarian and Turkish subsidiaries of the Group are the Russian ruble, euro, the Romanian lei, the Ukrainian hryvnia, the Kazakh tenge, the Bulgarian lev and the Turkish lira, 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, European, Romanian, Ukrainian, Kazakh, Bulgarian and Turkish subsidiaries translate local currencies 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.

(i) Mining assets and processing plant and equipment

Mineral exploration costs incurred prior to establishing proven and probable reserves for a given property and costs of identifying and upgrading additional mineral resources to reserve status for mineral projects in the development and production stages are expensed as incurred. Proven and probable reserves are established based on independent feasibility studies and appraisals performed by mining engineers. 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.

Costs of developing new underground mines are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. Additionally, interest expense 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 (Note 3(k)), or the estimated lives of the mines for mining assets related to the mineral licenses acquired after that date. The unit-of-production method is used for the underground mine development structure costs as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

A decision to abandon, reduce or expand activity on a specific mine is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral licenses, and the likelihood that the Group will continue exploration on the mine. Based on the results at the conclusion of each phase of an exploration program, properties that are not economically feasible for production are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the companies owning such mineral rights.

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

(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. Manufacturing overhead costs are capitalized only if and to the extent they can be reliably measured and directly allocated to definite object of construction-in-progress. These costs include the costs of electricity used to operate the equipment, depreciation on the equipment, costs of personnel (other than direct labour) and other. 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. We expensed $38,743, $66,025 and $77,644 of repair and maintenance costs during the period ended December 31, 2014, 2013 and 2012, respectively. These amounts represent the cost of third parties repair and maintenance services. Repair and maintenance costs carried out internally are accounted for as expense according to the nature of cost elements, including cost of labour and related social taxes, spare parts, auxiliary materials, energy and other expense.

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 operations and comprehensive income (loss).

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

Category of asset	**Useful economic lives estimates, years**
Buildings and constructions	5-85
Operating machinery and equipment	2-30
Transfer devices	3-30
Transportation equipment and vehicles	2-25
Tools, furniture, fixtures and other	2-15

(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.

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 established a policy, according to which the Group would engage independent mining engineers to review its proven and probable reserves approximately 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. The Group's proven and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

(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, 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 or the U.S. treasury bonds depending on the location of the assets with maturity dates that are similar 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 value beyond proven and probable reserves), 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.

In performing the impairment analysis, the Group considers whether the results and cash flows of an asset or asset group can be clearly distinguished from results and cash flows of other assets of the Group. Generally long-lived assets are grouped by reporting units with discrete financial information regularly reviewed by operating management (i.e. the lowest level of identifiable cash flows that are independent of the cash flows of other assets is at a single entity level). At SKCC, a group of assets is determined by the aggregated mines owned and operated by SKCC, because they are dependent on operations of each other and represent the single production process.

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 impairment charge 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 that will be obtained from proven and probable reserves and estimated value beyond proven and probable mineral reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by the Group's engineers. The Group's reporting units with goodwill allocated for the testing purposes represent single entities with one component of business in each case. As of December 31, 2014, the Group had the following number of reporting units by segments with goodwill allocated for testing purposes: Steel – 2, Mining – 4 and Power – 2. 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 goodwill 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 operations and comprehensive income (loss), which could have a material adverse effect on the Group's results of operations or financial position.

(o) Finance leases

The cost of equipment acquired under 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 Note 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 in the 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 operations and comprehensive income (loss). When inventories are written down below cost at the close of a fiscal year, such reduced amount is considered as the cost basis for subsequent accounting purposes.

(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 cash 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).

The Group's standard credit terms are 30 days in Russia and Western Europe. The Group also extends the credit terms to its related party customers from 2 days up to 5 years. The Group monitors collectibility of accounts receivable, including those from its related parties, on an ongoing basis primarily through review of the accounts receivable aging to determine whether accounts receivable are a concern.

(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.

In 2012, the total rate of social contributions was 30%: contributions to the Russian Pension Fund in the amount of 22% of the annual gross salary of each employee, contributions to the Fund of Obligatory Medical Insurance in the amount of 5.1%, and contributions to the Social Insurance Fund in the amount of 2.9%. These rates were applied to the part of the annual gross salary below 512 thousand Russian rubles (approximately $16.9), and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

In 2013, the rates of social contributions remained at the same level as in 2012. These rates were applied to the portion of annual gross salary below 568 thousand Russian rubles (approximately $17.8), and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

In 2014, the rates of social contributions remained at the same level as in 2013. These rates were applied to the portion of annual gross salary below 624 thousand Russian rubles (approximately $16.2), and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

Contributions to the Russian pension fund for the years ended December 31, 2014, 2013 and 2012 were $159,954, $192,820 and $176,912, respectively.

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 statement of operations, 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.

For unfunded plans, the Group recognizes a pension liability, which is equal to the projected benefit obligation. For funded plans, the Group offsets the fair value of the plan assets with the projected benefit obligations and recognizes the net amount of pension liability. The market value of plan assets is measured at each reporting date.

The Group's U.S. subsidiaries adopted 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") 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 (Note 17).

(t) Revenue recognition

Revenue is recognized on an accrual basis when earned and realizable, which generally occurs when products are delivered to customers. 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.

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

Revenues are inflows from sales of goods that constitute ongoing major operations of the Group and are reported as such in the consolidated statement of operations and comprehensive income (loss). Inflows from incidental and peripheral operations are considered gains and are included, net of related costs, in other income in the consolidated statement of operations and comprehensive income (loss).

The Group is involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when the Group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when the Group has earned a commission or fee as an agent. The Group evaluates the relevant facts and circumstances and takes into consideration the following factors in determining whether to recognizes revenue on a gross basis: (1) the Group is the primary obligor in the arrangement; (2) the Group has general inventory risk including customer returns; (3) the Group has latitude in establishing price; (4) the Group changes the product or performs part of the service; (5) the Group has discretion in supplier selection; (6) the Group is involved in the determination of product or service specifications; (7) the Group has physical loss inventory risk; and (8) the Group has credit risk. Otherwise, revenues are reported net when the Group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity.

This accounting policy of reporting revenue gross as a principal versus net as an agent has no effect on gross profit, income from continuing operations before taxes, or net income.

In the situation when the Group acts as a supplier and as a buyer with the same counterparty, the Group analyzes the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

In the Power segment (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.

(u) Advertising costs

Advertising costs are expensed as incurred. During the years ended December 31, 2014, 2013 and 2012, the amounts of 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 $928,070, $1,116,959 and $1,140,850 for the years ended December 31, 2014, 2013 and 2012, 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 or expense 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.

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

ASC 740 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. As of December 31, 2014 and 2013, the Group included accruals for unrecognized income tax benefits totaling $31,444 and $78,332, including interest and penalties of $2,656 and $13,789, 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.

(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, 2014, 2013 and 2012, 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, 2014 and 2013, the amount of comprehensive income included the effect of curtailment and actuarial gains and losses.

Accumulated other comprehensive loss is comprised of the following components:

	December 31, 2014	December 31, 2013	December 31, 2012
Cumulative currency translation adjustment......................	971,794	(68,784)	(337,701)
Unrealized losses on available-for-sale securities..............	(16)	(1,309)	(3,480)
Pension adjustments, net of related income taxes of $8,228 in 2014, $6,718 in 2013 and $7,918 in 2012....................	603	22,492	14,248
Total accumulated other comprehensive income (loss) .	**972,381**	**(47,601)**	**(326,933)**

(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, 2014, 2013 and 2012, 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 three business segments as follows:

- Steel segment, comprising production and sales of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, value-added downstream metal products, including forgings, stampings, and hardware, ferrosilicon;
- Mining segment, comprising production and sales of coal (coking and steam) and middlings, coke and chemical products, and iron ore, which supplies raw materials to the Steel and Power segments and also sells substantial amounts of raw materials to third parties;
- Power segment, comprising generation and sales of electricity and heat power, which supplies electricity and heat power to the Steel and Mining segments and also sells a portion of electricity and heat power to third parties.

(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, 2014 and 2013. For long-term borrowings, the difference between fair value and carrying value is shown in Note 15. 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 (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 included in the related line items of the consolidated statements of operations 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, 2014, 2013 and 2012, 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.

The cross currency swap agreement signed with VTB Bank (Austria) involves the exchange of two principal amounts in two different currencies at the prevailing currency rate at contract inception. During the life of the swap, the counterparties exchange fixed rate interest payments in the swapped currencies. At maturity, the principal amounts are again swapped at a pre-determined rate of exchange. For the year ended December 31, 2014, a loss of $89,446 related to the change in the fair value and termination of this swap instrument was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). For the years ended December 31, 2013 and 2012, a gain of $1,791 and $6,527, respectively, related to the change in the fair value of the cross currency swap was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). On December 29, 2014, the swap agreement with VTB Bank (Austria) was terminated. As of December 31, 2014, the amount of $101,912 due to VTB Bank (Austria) was recorded within Accrued expenses and other current liabilities in the consolidated balance sheet. In 2015, the Group entered into court proceedings with VTB Bank (Austria) (Note 26 (d)).

The cross currency option creates an embedded derivative, which should be measured at fair value, bifurcated at inception from the host agreement and recorded as a liability. When the underlying achieves the barrier value, the liability under the host contract converts into cross-currency at a pre-determined strike exchange rate and a modified interest rate. The fair value of the option is estimated using modified Black-Scholes model for barrier options. The liability under the host contract is recorded at amortized value, and the interest is accrued using effective interest rate. For the year ended December 31, 2014, a loss of $254,235 related to the exercise of derivative instruments was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). For the years ended December 31, 2013 and 2012, a gain of $20,682 and $20,276, respectively, related to the change in the fair value of the option was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). In December 2014, the Group's borrowings of 20.9 billion Russian rubles were converted in U.S. dollars of $677,981 due to the existence of cross currency options with Sberbank described in Note 15. In 2015, the Group and Sberbank entered into litigation with respect to the conversion (Note 26 (d)).

(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 the 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.

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

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 income (loss).

Recoverability of equity method and other investments

Management periodically assesses the recoverability of the Group's 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.

(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 28,	Year end rates* at December 31,			Average exchange rates* for the years ended December 31,		
Currency	**2015**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Russian ruble	51.47	56.26	32.73	30.37	38.42	31.85	31.09
Euro.................................	0.92	0.82	0.73	0.76	0.75	0.75	0.78
Romanian lei.....................	4.06	3.69	3.26	3.36	3.35	3.33	3.47
Kazakh tenge	185.80	182.35	153.61	150.74	179.12	152.14	149.11
Bulgarian lev	1.81	1.61	1.42	1.48	1.47	1.47	1.52
Turkish lira	2.70	2.32	2.14	1.79	2.19	1.90	1.80
Ukrainian hryvnia	22.53	15.77	7.99	7.99	11.91	7.99	7.99

(*) 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, euro and Romanian lei.

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) Discontinued operations

FASB ASC 205 "Discontinued operations" ("ASC 205") sets forth the financial accounting and reporting requirements for discontinued operations of a component of an entity. A "component or group of component of an entity" comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable or an operating segment, a reporting unit, a subsidiary, or an asset group.

ASC 205 uses a single accounting model to account for all long-lived assets to be disposed of (by sale, abandonment, or distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation, as specified in FASB ASC 205. A long-lived asset group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with ASC 360, a loss is recognized for any write-down to fair value less cost to sell. A gain is recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized resulting from the sale of the asset disposal group is recognized at the date of sale.

In accordance with ASC 205, a subsidiary is reported as discontinued operation when both of the following conditions are met:

- The operations and cash flow of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement for current and prior periods reports the results of operations of the component, including any gain or loss recognized from the sale or write-down, in discontinued operations. The results of operations of a component classified as held for sale are reported in discontinued operations in the periods in which they occur. The results of discontinued operations, less applicable income taxes (benefit), are reported as a separate component of income before extraordinary items (if applicable).

In accordance with amendments in ASU 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment" ("ASU 2014-08") of ASC 205, that are effective for public business entities for the annual periods beginning on or after December 15, 2014 and interim periods within those years, a discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs:

a. The component of an entity or group of components of an entity meets the criteria in paragraph 205-20-45-1E to be classified as held for sale (approving of management, immediate sale in its present conditions, active program for searching the buyer, price and etc.);

b. The component of an entity or group of components of an entity is disposed of by sale;

c. The component of an entity or group of components of an entity is disposed of other than by sale in accordance with paragraph 360-10-45-15 (for example, by abandonment or in a distribution to owners in a spinoff).

The Group is currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2014-08 on the Group's consolidated financial statements.

(hh) Recently issued accounting pronouncements

Revenue from Contracts with Customer

In May 2014, the FASB issued Accounting Standards Update ("ASU") ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which will replace most existing revenue recognition guidance. The core principle of this update is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The amendments require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments.

ASU 2014-09 provides alternative methods of retrospective adoption and is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early application is not permitted.

The Group is currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2014-09 on the Group's consolidated financial statements.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures".

This update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in ASU 2014-11 also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings.

The amendments in ASU 2014-11 are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted.

The adoption of ASU 2014-11 is not expected to have a material impact on the Group's consolidated financial statements.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", which requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures.

ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted.

The Group is currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2014-15 on the Group's consolidated financial statements.

Pushdown Accounting

In November 2014, the FASB issued ASU 2014-17, "Business Combinations – Pushdown Accounting", ("ASU 2014-17"). The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. ASU 2014-17 is effective from November 18, 2014.

The adoption of ASU 2014-17 is not expected to have a material impact on the Group's consolidated financial statements.

Elimination of Extraordinary Reporting

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The new guidance eliminates the separate presentation of extraordinary items, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or infrequently occurring.

ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption.

The adoption of ASU 2015-01 is not expected to have a material impact on the Group's consolidated financial statements.

Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities.

ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models from four to two. In addition, the new standard simplifies the FASB Accounting Standards Codification and improves current guidance by: (i) placing more emphasis on risk of loss when determining a controlling financial interest; (ii) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a VIE; and (iii) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs.

ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Group is currently evaluating the impact of ASU 2015-02 on the Group's consolidated financial statements.

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

Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

ASU 2015-03 is effective retrospectively for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period.

The Group is currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2015-03 on the Group's consolidated financial statements.

(ii) 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 certain items in the consolidated balance sheet and the consolidated statement of operations and comprehensive income (loss), and have no impact on net income or equity.

4. ACQUISITIONS, INVESTMENTS AND DISPOSALS

The Group experienced the following acquisitions and disposals between January 1, 2012 and December 31, 2014.

(a) Cognor Stahlhandel GmbH

On September 25, 2012, the Group acquired a 100% interest in Cognor Stahlhandel GmbH ("Cognor"), a metallurgical trader located in Austria, for $29,056 paid in cash. Before the acquisition, the 100% of the shares of Cognor were pledged to secure the Group's loan issued to the related metallurgical plants (Note 10(a)). The acquisition is consistent with the Group's strategy to expand its sales network and enlarge its client base. Cognor is included in the Steel segment.

This acquisition was accounted for using the purchase method of accounting. The results of operations of Cognor are included in the consolidated financial statements from the date of acquisition of control, September 25, 2012. The following table summarizes the historical values of net assets acquired at the date of acquisition of control:

	September 25, 2012
Cash and cash equivalents	4,884
Other current assets	107,839
Property, plant and equipment	49,097
Other non-current assets	3,384
Current liabilities	(184,027)
Non-current liabilities	(11,443)
Deferred income tax liabilities	(2,573)
Fair value of net assets (liabilities) acquired	(32,839)
Fair value of noncontrolling interest	(54)
Goodwill	61,949
Total investment	**29,056**

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

Goodwill of $61,949 arising from the Group's acquisition of Cognor represented expected benefits from the synergies related to the expansion of the trading activities and strengthening the position in the European market. As a result of the impairment analysis, an impairment loss of $62,118 for the year ended December 31, 2012 was recognized.

(b) Lomprom Rostov

On November 22, 2012, the Group acquired 100% of the shares of Lomprom Rostov, a factory performing collection and storage of scrap metal located in Shakhty, Russia, for a consideration of $100 paid in cash. Before the acquisition, the 100% of the shares of Lomprom Rostov were pledged to secure the Group's loan issued to the related metallurgical plants (Note 10(a)). The acquisition is consistent with the Group's program to decrease the cost of steel products production, in particular, the cost of production based on smelt-furnace. Lomprom Rostov, subsequently renamed into Mechel Vtormet Rostov, is included in the Steel segment.

This acquisition was accounted for using the purchase method of accounting. The results of operations of Lomprom Rostov are included in the consolidated financial statements from the date of acquisition of control, November 22, 2012. The following table summarizes the historical values of net assets acquired at the date of acquisition of control:

	November 22, 2012
Cash and cash equivalents	76
Other current assets	4,758
Property, plant and equipment	22,970
Other non-current assets	2
Current liabilities	(18,404)
Non-current liabilities	(22,416)
Deferred income taxes	(37)
Fair value of net assets acquired	**(13,051)**
Goodwill	13,151
Total investment	**100**

Goodwill of $13,151 arising from the Group's acquisition of Lomprom Rostov represented the expected benefits from the synergies related to the reduction in production costs from using scrap in the Group's subsidiaries melting operations. The results of Lomprom Rostov are included in the Steel segment.

(c) Discontinued operations

DEMP

As of December 31, 2013 and 2012, the Group classified DEMP as held for sale (assets and liabilities of discontinued operations) and excluded the result of DEMP from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

Due to the existing uncertainty in the economic and political situation in Ukraine further negotiations on the sale of DEMP were suspended. As a result, the Group reclassified DEMP as held and used, excluded the result of DEMP from discontinued operations as of December 31, 2014. Following the classification of DEMP as held and used, the fair value of net assets, as the lower of carrying amounts and fair value, was determined.

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

Based on the results of the impairment analysis of long-lived assets performed by the Group, impairment losses of DEMP's long-lived assets of $18,020, $177,417 and $nil, and of DEMP's goodwill of $nil, $nil, and $205,522 were recognized during the years ended December 31, 2014, 2013 and 2012, respectively.

The carrying amount of inventories in the amount of $9,228 was written down to $nil as of December 31, 2014. A provision in the amount of $28,306 was recorded for the overpayment of income tax as of December 31, 2014 because of the low probability to reimburse the related receivable.

The results of DEMP reclassified from discontinued operations to continuing operations for the year ended December 31, 2014 and prior periods are presented below:

	December 31, 2014	December 31, 2013	December 31, 2012
Revenue	23,040	94,617	363,055
Cost of goods sold	(27,235)	(97,431)	(374,402)
Impairment of assets	(18,020)	(177,417)	(205,522)
Selling, general and administrative expenses	(13,436)	(34,242)	(38,879)
Interest income and expenses, net	(971)	(2,446)	(3,269)
Foreign exchange (loss) gain	(57,060)	2,020	677
Other (expenses) and income, net	(152)	9,704	129
Loss from cotinuing operations, before income tax	**(93,834)**	**(205,195)**	**(258,211)**
Income tax (expense) benefit	(28,367)	28,944	4,920
Net loss from continuing operations	**(122,201)**	**(176,251)**	**(253,291)**

Toplofikatsia Rousse

On December 13, 2012, the Group entered into an agreement with a third party to sell 100% of the shares of TPP Rousse for a consideration of $37,757. The transfer of shares was completed on July 5, 2013. The disposal of TPP Rousse is aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses.

The receivables under the sale and purchase agreement and intercompany receivables for the coal supply that existed as of the date of disposal were secured in favor of the Group by the pledge of TPP Rousse shares and receivables of TPP Rousse for electricity sold. As of December 31, 2014 and 2013, accounts receivable due to the Group amounted to $14,753 and $16,920, respectively. Bad debt provision of $14,753 was recorded as of December 31, 2014 in relation to receivables for the coal supply and was included in the discontinued operations. The intragroup sales to TPP Rousse included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $nil, $9,449 and $35,248 during the years ended December 31, 2014, 2013 and 2012, respectively.

In the previous periods, the Group's transactions with TPP Rousse were mainly represented by the coal supply to TPP Rousse, which ceased after the disposal of this entity. The Group did not have any significant continuing involvement in the operations of TPP Rousse after the disposal transaction.

As at December 31, 2012, the Group classified TPP Rousse as held for sale (assets and liabilities of discontinued operations) and excluded the result of TPP Rousse from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

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

Following the classification of TPP Rousse as held for sale, the fair value of net assets was determined. The impairment loss of goodwill and long-lived assets of $82,742 and $13,031, respectively, for the year ended December 31, 2012 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. No additional impairment was recognized during 2013. The impairment loss was recognized in consolidated statements of operations and comprehensive income (loss) under the "Loss from discontinued operations, net of income tax" line.

The results of TPP Rousse presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for the years ended December 31, 2013 and 2012:

	2013	2012
Revenue, net	18,595	37,010
Loss from discontinued operations before income taxes	(262)	(110,668)
Income tax benefit	209	2,239
Loss from discontinued operations, net of income tax	**(53)**	**(108,429)**

The carrying amounts of the major classes of assets and liabilities of TPP Rousse presented as discontinued operations in consolidated balance sheets were as follows as of date of disposal and December 31, 2012:

	July 5, 2013	December 31, 2012
Condensed balance sheet selected data		
Cash and cash equivalents	3,572	3,035
Accounts receivable, net of allowance for doubtful accounts	9,589	5,681
Inventories	3,244	5,854
Prepayments and other current assets	489	533
Property, plant and equipment and other non-current assets, net	41,146	44,120
Total current assets of discontinued operations	**58,040**	**59,223**
Accounts payable and accrued expenses	21,721	3,800
Short-term borrowings and current portion of long-term debt	0	12,234
Other current liabilities	1,536	1,767
Total current liabilities of discontinued operations	**23,257**	**17,801**

The result of TPP Rousse as discontinued operations was included in the Power segment. The result of TPP Rousse for the year ended December 31, 2013 includes gain on disposal of subsidiary, which was calculated as follows as of the date of disposal:

	July 5, 2013
Consideration received	37,757
Net assets disposed of	(34,783)
Accumulated currency translation adjustment attributable to disposal of TPP Rousse transferred to the current period income (loss)	2,633
Gain on disposal of TPP Rousse	**5,607**

Invicta

On July 18, 2013, the Group entered into an agreement with a third party to sell 100% of the shares of Invicta Merchant Bar Limited ("Invicta") for the total consideration of $1,668. The transfer of shares was completed on the same date. The disposal of Invicta was aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses.

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

In the previous periods, the Group's transactions with Invicta mainly consisted of the steel products resale, which ceased after the disposal of this entity. The Group did not have significant continuing involvement in the operations of Invicta after the disposal transaction. Intercompany purchases of Invicta's tolling services amounted to $nil, $18 and $4,551 during the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Group classified Invicta as held for sale (assets and liabilities of discontinued operations) and excluded the result of Invicta from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

Following the classification of Invicta as held for sale, the fair value of net assets of this entity was determined. The impairment of goodwill and long-lived assets of $2,768 and $4,198, respectively, for the year ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the "Loss from discontinued operations, net of income tax" line.

The results of Invicta presented as discontinued operations in consolidated statements of operations and comprehensive income (loss) were as follows for the year ended December 31, 2013, 2012.

	Years ended	
	December 31, 2013	December 31, 2012
Revenue, net	**9,761**	**12,642**
Loss from discontinued operations before income taxes	(13,303)	(3,588)
Income tax benefit	–	–
Loss from discontinued operations, net of income tax	**(13,303)**	**(3,588)**

The carrying amounts of the major classes of assets and liabilities of Invicta presented as assets and liabilities of discontinued operations in the consolidated balance sheets were as follows as of July 18, 2013 and December 31, 2012:

	July 18, 2013	December 31, 2012
Condensed balance sheet selected data		
Cash and cash equivalents	44	163
Accounts receivable, net of allowance for doubtful accounts	8	183
Inventories	543	579
Prepayments and other current assets	191	947
Property, plant and equipment, net	2,864	8,019
Goodwill	–	2,980
Total current assets of discontinued operations	**3,650**	**12,871**
Accounts payable and accrued expenses	1,855	1,052
Other current liabilities	127	79
Total current liabilities of discontinued operations	**1,982**	**1,131**

The result of Invicta as discontinued operations was included in the Steel segment. The result of Invicta for the year ended December 31, 2013 includes loss on disposal of subsidiary, which was calculated as follows as of the date of disposal:

	July 18, 2013
Consideration received	1,668
Net assets disposed of	(1,668)
Accumulated currency translation adjustment attributable to disposal of Invicta transferred to the current period income (loss)	229
Gain on disposal of Invicta	**229**

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

Mechel Vtormet Rostov (former Lomprom Rostov)

On July 17, 2013, the Group entered into an agreement with a third party to sell 100% of the shares of Lomprom Rostov for the total consideration of $517. The transfer of shares was completed on the same date. The disposal of Lomprom Rostov was aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses.

Loan issued by the Group to Lomprom Rostov in the amount of $6,121 and $4,720 (including interest payables) as of December 31, 2013 and 2012, respectively, was expected to be fully repaid till August 2015. The bad debt provision of $5,515 related to the loan issued was recorded as of December 31, 2014 and was included in the discontinued operations. Other intercompany transactions are not significant and ceased after the disposal of this entity. The Group did not have any significant continuing involvement in the operations of Lomprom Rostov after the disposal transaction.

As of December 31, 2013 and 2012, the Group classified Lomprom Rostov as held for sale (assets and liabilities of discontinued operations) and excluded the result of Lomprom Rostov from continuing operations and reported as discontinued operations for the twelve months ended December 31, 2013 and prior periods. Following the classification of Lomprom Rostov as held for sale, the fair value of net assets of this entity was determined. The impairment loss of goodwill of $2,597 for the twelve months ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the "Loss from discontinued operations, net of income tax".

The intragroup sales to the discontinued component included in revenue from continuing operations in the consolidated financial statement of operations and comprehensive income (loss) amounted to $nil, $nil and $19,977 during the year ended December 31, 2014, 2013 and 2012, respectively.

The results of Lomprom Rostov presented as discontinued operations in consolidated statements of operations and comprehensive income (loss) were as follows for:

	Period ended July 17, 2013	Year ended December 31, 2012
Revenue, net	**151,307**	**25,765**
Gain from discontinued operations before income taxes	4,479	(455)
Income tax benefit	1,585	280
Gain (loss) from discontinued operations, net of income taxes	**6,064**	**(175)**

The carrying amounts of major classes of assets and liabilities of disposed companies were as follows as of:

	July 17, 2013	December 31, 2012
Cash and cash equivalents	2,166	111
Accounts receivable, net of allowance for doubtful accounts	18,687	20,374
Inventories	829	14,236
Prepayments and other current assets	4,428	2,743
Property, plant and equipment, net	21,164	24,122
Goodwill	9,862	12,830
Total current assets of discontinued operations	**57,136**	**74,416**
Accounts payable and accrued expenses	25,504	27,466
Short-term borrowings and current portion of long-term debt	30,720	27,089
Other current liabilities	–	–
Total current liabilities of discontinued operations	**56,224**	**54,555**

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

The result of Lomprom Rostov as discontinued operations was included in the Steel segment. The result of Lomprom Rostov for the year ended December 31, 2013 includes loss on disposal of subsidiary, which was calculated as follows as of the date of disposal:

	July 17, 2013
Consideration received	517
Net assets disposed of	(912)
Accumulated currency translation adjustment attributable to disposal of Lomprom Rostov transferred to the current period income (loss)	5,272
Gain on disposal of Lomprom Rostov	**4,877**

TFP, Voskhod-Oriel, Voskhod-Chrome, Voskhod Trading

On July 10, 2013, the Group entered into a sale and purchase agreement with a third party to sell 100% of the share capital of Tikhvin Ferroalloy plant (“TFP”), Voskhod-Oriel LLP (“Voskhod-Oriel”), Voskhod-Chrome LLP (“Voskhod-Chrome”) and Voskhod Trading LLP (“Voskhod Trading”) for a consideration of $425,000. The transfer of shares was completed on December 27, 2013 and the amount of consideration was received in full till the end of the year less income tax of $1,000 withheld by the seller in favor of the government of the Republic of Kazakhstan. On January 30, 2014, the Group received $15,096 from the buyer as reimbursement of cash, which was held on bank accounts of the companies disposed of at the date of disposal, as part of consideration under the sale and purchase agreement. The additional expenses related to the bargain were presented mainly by consulting services of third party banks and amounted to $8,738. The disposal of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading is aligned with the revised strategy aimed at restructuring the Group’s assets and development of its core businesses.

The Group concluded that the companies disposed of met the criteria of discontinued operations and excluded the result of the component disposed of from continuing operations and reported it as discontinued operations for the period ended December 27, 2013 and prior periods.

The intragroup sales to the discontinued component included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $5,063 and $7,675 during the years ended December 31, 2013 and 2012, respectively. The intragroup purchases from the discontinued component included in cost of sales of continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $16,362 and $18,095 during the years ended December 31, 2013 and 2012, respectively. Revenue from intragroup sales of $17,294 and $17,992 during the years ended December 31, 2013 and 2012, respectively, was included net of related expenses in “Loss from discontinued operations, net of income tax” line in the consolidated statement of operations and comprehensive income (loss).

The Group’s transactions with the discontinued component were mainly represented by the energy, coal supply to TFP and by the sales of ferroalloy by TFP to Chelyabinsk Metallurgical Plant (“CMP”) and Izhstal, which were mainly ceased after the disposal of this entity. The Group will not have significant continuing involvement in the operations of the discontinued component after the disposal transaction.

Following the classification of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading as held for sale, the fair value of net assets was determined. The impairment of property, plant and equipment of $32,712 and of mineral licenses of $842,052 for the year ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the “Loss from discontinued operations, net of income tax” line.

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

The results of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for:

	Period of January 1, 2013 to December 27, 2013	Year ended December 31, 2012
Revenue, net	**159,040**	**197,894**
Loss from discontinued operations, before income taxes	(1,370,570)	(71,787)
Income tax benefit	214,894	7,300
Loss from discontinued operations, net of income tax	**(1,155,676)**	**(64,487)**

Revenue from sales of ferroalloys to related parties (Zlatoust Metallurgical Plant, Metallurg-Trust) in the amount of $1,858, $6,352 in the years ended December 31, 2013 and 2012, respectively, was presented net of related expenses in “Loss from discontinued operations, net of income tax” line in the consolidated statement of operations and comprehensive income (loss).

The carrying amounts of major classes of assets and liabilities of disposed companies presented as discontinued operations in consolidated balance sheets were as follows as of date of disposal and December 31, 2012:

	December 27, 2013	December 31, 2012
Condensed balance sheet selected data		
Cash and cash equivalents	16,161	990
Accounts receivable, net of allowance for doubtful accounts	1,645	822
Due from related parties, net of allowance	0	2,294
Inventories	16,660	22,790
Deferred income tax	6,172	3,123
Prepayments and other current assets	16,978	13,717
Other long-term investments	183	187
Property, plant and equipment, net	307,505	362,303
Mineral licenses, net	119,458	1,203,536
Other non-current assets	11,556	16,400
Total current assets of discontinued operations	**496,318**	**1,626,162**
Short-term borrowings and current portion of long-term debt	0	23,500
Accounts payable and accrued expenses	29,757	21,706
Long-term debt	0	7,833
Deferred income taxes	31,719	252,100
Asset retirement obligation	1,002	1,038
Total current liabilities of discontinued operations	**62,478**	**306,177**

The results of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading as discontinued operations were included in the Ferroalloy segment. The results of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading for the year ended December 31, 2013 includes loss on disposal of subsidiaries, which was calculated as follows as of the date of disposal:

	December 27, 2013
Consideration received (net of consultancy fees)	430,358
Net assets disposed of	(433,840)
Accumulated currency translation adjustment attributable to disposal of subsidiaries transferred to the current period income (loss)	(279,196)
Loss on disposal of subsidiaries	**(282,678)**

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

SUNP

As of December 31, 2014, Southern Urals Nickel Plant ("SUNP") was recognized as abandoned activity according to a decision to close SUNP without sale. In July 2013, the Group received an approval from the governmental authorities to abandon the industrial complex. The closure of SUNP is aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses.

On May 25, 2013, the Group approved the plan of staff curtailment according to which a number of SUNP's personnel was reduced to 274 workers as of December 31, 2013. As of December 31, 2014, the number of personnel increased to 315 workers due to cease of third parties security services and redirection of these functions to SUNP's internal employees as part of the Group's efforts to reduce SUNP's costs.

The intragroup sales to SUNP included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $nil, $nil and $75,401 during the years ended December 31, 2014, 2013 and 2012, respectively. The intragroup purchases from SUNP included in cost of goods sold of continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $683, $1,078 and $29,724 during the years ended December 31, 2014, 2013 and 2012, respectively. Revenue from intragroup sales of $nil, $nil and $27,194 during the years ended December 31, 2014, 2013 and 2012, respectively, were included net of related expenses in "Loss from discontinued operations, net of income tax" line in the consolidated statement of operations and comprehensive income (loss). The Group's transactions with SUNP were mainly represented by the coal, energy and limestone supply to SUNP and by the sales of ferroalloy and industrial scrap by SUNP to CMP and Izhstal.

The Group excluded the result of the company from continuing operations and reported them as discontinued operations for the year ended December 31, 2014 and prior periods.

The impairment of property, plant and equipment and nickel mineral license of $nil, $965 and $93,752 for the years ended December 31, 2014, 2013 and 2012, respectively, was recognized to reduce the carrying amount of the assets and liabilities of SUNP to their fair value. The impairment of goodwill in the amount of $6,950 was recognized for the year ended December 31, 2012. The impairment losses were recognized in the consolidated financial statement of operations and comprehensive income (loss) under the "Loss from discontinued operations, net of income tax" line.

The results of SUNP presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for the years ended:

	December 31, 2014	December 31, 2013	December 31, 2012
Revenue	1,782	2,607	196,894
Cost of goods sold	(2,225)	(3,431)	(215,857)
Accretion expenses	(1,014)	(458)	(475)
Impairment of PPE, mineral license, goodwill	–	(965)	(101,227)
Selling, general and administrative expenses	(4,670)	(19,541)	(46,017)
Interest income and expenses, net	(95)	(3,159)	(12,027)
Foreign exchange gain	32,282	3,694	19
Other income and expenses, net	2,928	3,410	399
Profit (loss) of discountinued operations, before income tax	**28,988**	**(17,843)**	**(178,291)**
Income tax benefit	–	–	1,191
Income (loss) from discontinued operations, net of income tax	**28,988**	**(17,843)**	**(177,100)**

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

Revenue from sales of ferroalloys to related parties in the amount of $nil, $nil and $8,417 in the years ended December 31, 2014, 2013 and 2012, respectively, was presented net of related expenses in “Loss from discontinued operations, net of income tax” line in the consolidated statement of operations and comprehensive income (loss).

The carrying amounts of the major classes of assets and liabilities of SUNP in the consolidated balance sheets were as follows as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Condensed balance sheet selected data		
Cash and cash equivalents	63	201
Accounts receivable, net of allowance for doubtful accounts	891	63
Inventories	120	1,180
Prepayments and other current assets	230	1,822
Total current assets	**1,304**	**3,266**
Property, plant and equipment and other non-current assets, net	–	5,024
Other non-current assets	657	–
Total non-current assets	**657**	**5,024**
Total assets	**1,961**	**8,290**
Accounts payable and accrued expenses	5,691	13,376
Asset retirement obligation	1,132	339
Total current liabilities	**6,823**	**13,715**
Asset retirement obligation	2,830	8,466
Total non-current liabilities	**2,830**	**8,466**
Total liabilities	**9,653**	**22,181**

The results of SUNP as discontinued operations are included in the Steel segment.

The BCG Companies

In December 2014, the Group entered into an agreement with a third party to sell 100% of the shares of the BCG Companies. The total consideration for the sale of the BCG Companies under the shares sale agreement consists of: (1) an immediate cash payment of $5,000; (2) future royalty payments on coal mined and sold in the amount of $3.00 per short ton, capped at $150,000; (3) a portion of a sale price in case of any future sale of the BCG Companies and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closed within, respectively, five or ten years of the sale to the buyer. The fair value of future royalty payments and portion of selling price in case of future resale of the BCG Companies was not assessed by the Group as it was impracticable at the date of sale.

The contingent payment arising upon the acquisition of the BCG Companies of $29,936, which depends on the results of additional geological researches of reserves (“Drilling Program”), was released on the date of transfer of shares, February 12, 2015. The Group incurred expenses of $3,415 related to consulting services from third party banks in connection with the sale. The disposal of the BCG Companies is aligned with the revised strategy aimed at restructuring the Group’s assets and development of its core businesses.

The Group concluded that the companies disposed of met the criteria of discontinued operations and excluded the result of the component disposed of from continuing operations and reported them as discontinued operations for the period ended December 31, 2014 and prior periods.

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

The intragroup sales to the discontinued component included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $nil, $147 and $221 during the years ended December 31, 2014, 2013 and 2012, respectively. The intragroup purchases from the discontinued component included in cost of goods sold of continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $nil, $nil and $14,983 during the years ended December 31, 2014, 2013 and 2012, respectively. Revenue from intragroup sales of $nil, $nil and $14,983 during the years ended December 31, 2014, 2013 and 2012, respectively, was included net of related expenses in "Loss from discontinued operations, net of income tax" line in the consolidated statement of operations and comprehensive income (loss).

The Group's transactions with the discontinued component were mainly represented by the sales of coal produced by the BCG Companies to third party buyers through Mechel Trading AG and Mechel-Carbon AG, which are to be ceased after the disposal. The Group will not have significant continuing involvement in the operations of the discontinued component after the disposal transaction.

Following the classification of the BCG Companies as held for sale, the fair value of net assets was determined. The impairment of property, plant and equipment and mineral licenses, net of income tax effect, of $1,440,021 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell for the year ended December 31, 2014.

The results of the BCG Companies presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for:

	Years ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
Revenue	10,762	164,837	240,126
Cost of goods sold	(23,768)	(214,148)	(262,036)
Selling, general and adminstrative expenses	(52,427)	(37,509)	(59,908)
Interest income and expenses	(3,755)	(3,879)	(5,895)
Other income and expenses	1,206	528	(639)
Loss of discontinued operations, before income taxes	**(67,982)**	**(90,171)**	**(88,352)**
Income tax benefit	27,654	54,394	54,676
Loss recognised on classification as held for sale	(1,440,021)	–	–
Loss from discontinued operations, net of income tax	**(1,480,349)**	**(35,777)**	**(33,676)**

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

The carrying amounts of major classes of assets and liabilities of the held for sales companies presented as discontinued operations in consolidated balance sheets were as follows as of date of disposal and December 31, 2014:

	December 31, 2014	December 31, 2013
Condensed balance sheet selected data		
Cash and cash equivalents	1,615	1,603
Accounts receivable, net of allowance for doubtful accounts	2,104	5,286
Inventories	1,280	5,416
Deferred income tax	–	9,881
Prepayments and other current assets	2,504	2,973
Property, plant and equipment, net	110,721	–
Mineral licenses, net	1,976,684	–
Other non-current assets	34,249	–
Total major classes of assets of discontinued operations	**2,129,157**	**25,159**
Loss recognised on classification as held for sale	(1,977,555)	–
Total current assets of discontinued operations	**151,602**	**25,159**
Property, plant and equipment, net	–	145,792
Mineral licenses, net	–	1,977,548
Other non-current assets	–	33,033
Total non-current assets of discontinued operations	**–**	**2,156,373**
Total assets of discontinued operations	**151,602**	**2,181,532**
Short-term borrowings and current portion of long-term debt	10,979	6,758
Accounts payable and accrued expenses	39,085	49,149
Deferred income taxes	537,535	–
Pension obligation	55,122	1,813
Finance lease	–	61
Asset retirement obligation	6,556	–
Other current liability	8,355	
Total major classes of liabilities of discontinued operations	**657,632**	**57,781**
Reduction in deferred tax liability relating to loss recognized on classification as held for sale	(537,535)	–
Total current liabilities of discontinued operations	**120,097**	**57,781**
Long-term debt	–	6,940
Asset retirement obligation	–	6,568
Pension obligation	–	47,421
Deferred income taxes	–	576,578
Finance lease	–	10
Other non-current liability	–	36,074
Total non-current liabilities of discontinued operations	**–**	**673,591**
Total liabilities of discontinued operations	**120,097**	**731,372**

The results of the BCG Companies as discontinued operations were included in the Mining segment.

(d) Disposal of subsidiaries

During the period from February 15, 2013 through February 18, 2013, the Group disposed of 86.6% interest in Mechel Targoviste S.A., 86.6% interest in Mechel Campia Turzii S.A., 100% interest in Ductil Steel and 90.9% interest in Laminorul S.A. for a nominal consideration of 230 romanian lei ($0.1 as of the date of agreement) paid in cash. The disposal is consistent with the Group's strategy aimed at development of its core business, in particular consolidating the Group's leading position as a metallurgical coal producer.

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

All companies disposed of were accounted for in the Steel segment. The carrying amounts of major classes of assets and liabilities of disposed companies as of the dates of disposal were as follows:

	February 15-18, 2013
Cash and cash equivalents	547
Other current assets	106,386
Property, plant and equipment	1,530
Other non-current assets	708
Current liabilities	(131,456)
Non-current liabilities	(4,083)
Total net liabilities	**(26,368)**
Accumulated currency translation adjustment attributable to disposal of subsidiaries transferred to the current period income (loss)	(68,952)
Noncontrolling interests	(37,728)
Loss on disposal of subsidiaries	**(80,312)**

The fair value of the Group's net receivables from the companies disposed of as of the disposal dates is $nil.

The Group concluded that the companies disposed of did not meet the criteria of discontinued operations as of December 31, 2013, because the Group expected that after their disposal there will be significant cash flows from a migration of activities, exceeding a threshold set by the Group of 15% of the cash flows that would have been expected to be generated by the companies disposed of absent the disposal transaction. The Group did not have material operations with the disposed companies in 2014.

(e) Goodwill

Balance at December 31, 2011	**1,046,818**
Acquisition of Cognor (Note 4(a)), Steel segment	61,949
Acquisition of Lomprom (Note 4(b)), Steel segment	12,830
Discontinued operation – Lomprom (Note 4(c)), Steel segment	(12,830)
Impairment (Note 24)	(361,969)
Translation difference	36,017
Balance at December 31, 2012	**782,815**
Impairment (Note 24)	(38,310)
Translation difference	(56,742)
Balance at December 31, 2013	**687,763**
Impairment (Note 24)	–
Translation difference	(284,556)
Balance at December 31, 2014	**403,207**

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

As of December 31, 2014, the gross amount of goodwill and accumulated impairment losses were $711,088 and $307,881, respectively. As of December 31, 2013, the gross amount of goodwill and accumulated impairment losses were $995,644 and $307,881, respectively.

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

(f) Non-controlling interests

The following table summarizes changes in non-controlling interests for the three years ended December 31, 2014, 2013 and 2012:

Balance at December 31, 2011	**371,337**
Purchase of non-controlling interest in existing subsidiaries by the Group	(528)
New acquisitions	54
Effect of change in ownership of subsidiaries	675
Dividends declared to shareholders of Mechel Mining OAO	(8,026)
Dividends declared to shareholders of SKCC	(24,087)
Non-controlling share in subsidiaries' income	(317)
Translation difference	23,168
Balance at December 31, 2012	**362,276**
Purchase of non-controlling interest in existing subsidiaries by the Group	(76,080)
Effect from disposal of subsidiaries	37,729
Dividends declared to shareholders of SKCC	(8,876)
Non-controlling share in subsidiaries' income	5,047
Translation difference	(25,751)
Balance at December 31, 2013	**294,345**
Purchase of non-controlling interest in existing subsidiaries by the Group	–
Sale of subsidiaries' shares to non-controlling interest	66
Dividends declared to non-controlling interest	(50)
Non-controlling share in subsidiaries' loss	(24,308)
Translation difference	(116,649)
Balance at December 31, 2014	**153,404**

At various dates during 2013 and 2012, the Group purchased non-controlling interest in the following subsidiaries:

Year ended December 31, 2012	Date of acquisition	Non-controlling interest acquired		Cash consideration
		%	Amount	
Izhstal	October	1.63%	435	595
BMP	March	0.03%	12	33
Other	July-August	0.03%	81	4
			528	**632**

Year ended December 31, 2013	Date of acquisition	Non-controlling interest acquired		Cash consideration
		%	Amount	
TOPM	March	0.21%	652	33
KMP	August-November	4.40%	37,878	29,158
Mechel Mining OAO	November	1.31%	3,043	57,986
Effect of changes in ownership of subsidiaries within the Group	November		34,507	–
			76,080	**87,177**

In October 2012, the Group acquired 1.63% of voting shares of Izhstal for $595 paid in cash. The purchase of non-controlling interest in Izhstal was accounted for as an equity transaction (Note 19(e)).

In March 2012, the Group acquired 0.03% of voting shares of BMP for $33 paid in cash. The purchase of non-controlling interest in BMP was accounted for as an equity transaction (Note 19(e)).

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

In March 2013, the Group purchased 0.21% of TOPM from noncontrolling shareholders for $33 paid in cash. The purchase of non-controlling interest in TOPM was accounted for as an equity transaction (Note 19(e)).

On different dates from August 2013 through November 2013, the Group purchased 4.40% of KMP from non-controlling shareholders for $29,158 cash consideration. The purchase of non-controlling interest in KMP was accounted for as an equity transaction (Note 19(e)).

In November 2013, the Group purchased 1.31% of Mechel Mining OAO from the Controlling Shareholder for $57,986 cash consideration. The transaction was accounted for as an equity transaction (Note 19(e)). The Group has 99.999995% of voting shares of Mechel Mining OAO as of December 31, 2014.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	December 31, 2014	December 31, 2013
Cash and cash equivalents from continuing operations		
Russian ruble bank accounts	16,467	21,642
U.S. dollar bank accounts	32,058	211,776
Euro bank accounts	16,346	19,243
Bank accounts in other currencies	5,250	15,155
Other	679	5,120
Total cash and cash equivalents of continuing operations	**70,800**	**272,936**
Cash and cash equivalents of discontinued operations	1,616	1,603
Total cash and cash equivalents	**72,416**	**274,539**

As of December 31, 2014, short-term deposits with an original maturity of less than 90 days in the amounts of $16,373, $6,444 and $280 were included in U.S. dollar bank accounts, Russian ruble bank accounts and Bank accounts in other currencies, respectively.

As of December 31, 2013, short-term deposits with an original maturity of less than 90 days in the amounts of $191,438, $6,294 and $280 were included in U.S. dollar bank accounts, Russian ruble bank accounts and Bank accounts in other currencies, respectively.

As of December 31, 2014, the amount of $1,283 was restricted for use by regulatory requirements.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivables, net are comprised of:

	December 31, 2014	December 31, 2013
Domestic customers	267,478	491,550
Foreign customers	131,386	178,252
Total accounts receivable	**398,864**	**669,802**
Less allowance for doubtful accounts	(68,493)	(81,803)
Total accounts receivable, net	**330,371**	**587,999**

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

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

	2014	2013	2012
Balance at beginning of year	**(81,803)**	**(73,402)**	**(45,969)**
Allowance for doubtful accounts	(34,812)	(10,165)	(22,528)
Accounts receivable written off	17,574	3,562	4,209
Effect of disposal of subsidiaries	6,730	(5,194)	–
Allowance for doubtful accounts of acquired entities	–	–	(7,784)
Translation difference	23,818	3,396	(1,330)
Balance at end of year	**(68,493)**	**(81,803)**	**(73,402)**

The increase in the allowance for doubtful accounts in 2014 was due to the deterioration in the collectibility of customers accounts receivable which was offset against the effect of receivables written off, disposal of subsidiaries and significant currency translation difference.

7. INVENTORIES

Inventories are comprised of:

	December 31, 2014	December 31, 2013
Finished goods	353,651	800,435
Raw materials and purchased parts	186,556	409,457
Work-in-process	100,464	197,976
Total inventories	**640,671**	**1,407,868**

As of December 31, 2014 and 2013, the write-down of inventories to their net realizable value following the related market price decreases was $35,814 and $68,486, respectively.

The change in the write-downs of inventories by segment for the years ended December 31 is presented below:

	2014	2013	2012
Steel segment	(2,726)	(3,556)	14,309
Mining segment.	7,924	6,017	18,399
Energy segment	581	953	(71)
Total change in the write-down of inventories	**5,779**	**3,414**	**32,637**

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

8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets are comprised of:

	December 31, 2014	December 31, 2013
VAT and other taxes recoverable	94,225	241,902
Capitalized loan origination fees	72,946	51,190
Prepayments and advances for materials	45,403	60,602
Other receivables	14,185	44,265
Short-term loans issued	859	7,443
Promissory notes received	–	73
Other current assets	10,696	34,149
Total prepayments and other current assets	**238,314**	**439,624**

The following summarizes the changes in the allowance for doubtful accounts included in prepayments, other current assets and advances for materials for the years ended December 31:

	2014	2013	2012
Balance at beginning of year	**(34,867)**	**(18,616)**	**(13,007)**
(Allowance) Recovery of allowance for doubtful accounts	(3,156)	1,003	(5,051)
Effect of disposal of subsidiaries	–	(20,334)	–
Other receivable written off	21,541	–	–
Translation difference	7,044	3,080	(558)
Balance at end of year	**(9,438)**	**(34,867)**	**(18,616)**

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. As of December 31, 2014, the decrease in VAT and other taxes recoverable was due to effects of provision for not recoverable taxes at DEMP of $31,950, offset of prepaid income tax against taxes liabilities at SKCC of $33,754 and significant currency translation difference.

The capitalized origination fees on the Group's loans in the amount of $72,946 and $51,190 as of December 31, 2014 and 2013, respectively, 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.

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

9. LONG-TERM INVESTMENTS

Long-term investments are comprised of:

	December 31, 2014	December 31, 2013
Equity method investments	4,866	7,604
Other	1,276	–
Total investments in related parties	**6,142**	**7,604**
Available-for-sale securities	39	374
Cost method investments	2,812	8,393
Other	1,209	6,020
Total other long-term investments	**4,060**	**14,787**
Total long-term investments	**10,202**	**22,391**

The proceeds from sale of available-for-sale securities and the gross realized loss that have been included in earnings as a result of this sale in 2014 comprised $220 and $299, respectively ($1,108 and $3,787, respectively, in 2013).

(a) Equity method investments

Equity method investments are comprised of:

	Percent voting shares held at		Investment carrying value at	
Investee	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Mechel Somani Carbon (Mining segment)	51%	51%	701	535
TPTU (Mining segment)	40%	40%	2,754	4,451
TRMZ (Mining segment)	25%	25%	1,411	2,401
BWS Bewehrungsstahl GmbH (Steel segment)	–	36%	–	217
Total equity method investments			**4,866**	**7,604**

On December 7, 2012, the Group won an auction to acquire 74,195 common shares (73.33% of the total common shares or 55% of the total shares) of Vanino Sea Trade Port OAO (“Port Vanino”), the largest seaport in Khabarovsk Krai, located in the Tatar Strait in Russia, for 15.5 billion Russian rubles ($501,444 as of the auction date). The Group’s purpose of this transaction is to get a long-term access to the transshipment facilities of the largest seaport in Khabarovsk Krai in order to secure coal sales to the Group’s major customers in Southeast Asia, which will grow in the future along with the increasing volumes of coal production at Elga coal deposit.

On January 9, 2013, the shares of Port Vanino were transferred to the Group and the Group made cash payment of 15.5 billion Russian rubles ($486,827 at average 2013 U.S. dollar to Russian ruble exchange rate). On the same date, 72,780 of the acquired shares were sold to several foreign investors and related party (“Investors”). The aggregate consideration was 15.2 billion Russian rubles ($477,408 at average 2013 U.S. dollar to Russian ruble exchange rate). The main reason for the immediate resale of the vast majority shares acquired at the auction was the significant amount of cash needed to be paid for the controlling stake. On January 28, 2013, the Group acquired additional 21,892 common shares (21.64% of the total common shares or 16.23% of the total shares) and 16,039 preferred shares (47.56% of the total preferred shares or 11.89% of the total shares) of Port Vanino from a minority shareholder. The consideration for the preferred shares was 275 million Russian rubles ($8,635 at average 2013 U.S. dollar to Russian ruble exchange rate) and was fully paid. The consideration for the common shares was 4.77 billion Russian rubles ($149,774 at average 2013 U.S. dollar to Russian ruble exchange rate) and was paid on October 23, 2013 and included an interest payment in the amount of $6,171.

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

The purchases resulted in 23,307 common shares and 16,039 preferred shares being held by the Group as of January 28, 2013. These shares represented 29.2% of the total share capital of Port Vanino, or 23.04% of the total common shares, which enabled the Group to have significant influence over the operations of the investee. This acquisition was accounted for using the equity method of accounting in accordance with ASC 810 and included within long-term investments in related parties starting from January 28, 2013 till October 23, 2013 when 21,892 common shares and 16,039 preferred shares were sold to a third party for 5.04 billion Russian rubles ($158,427). During this period, income earned by the Group on this investment amounted to $3,306 and was included in the carrying amount of the investment under the equity method of accounting. The remaining shares of Port Vanino were sold to third parties and a related party (Note 10(c)) in July 2013 (810 common shares or 0.60% of the total shares) and, in December 2013 (605 common shares or 0.45% of the total shares), for the aggregate consideration of $9,282.

The cost of the investment disposed of in the year ended December 31, 2013 is equal to $642,389 and income on sale in the amount of $2,728 was recognized in the consolidated statement of operations and comprehensive income (loss).

Mechel Somani Carbon Private Limited shares are owned by Mechel Carbon AG. The core business is distribution of metallurgical coals on the Indian market. The noncontrolling interest holders of 49% of the shares have substantive participating rights.

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.

The core business of BWS Bewehrungsstahl GmBH is cutting and processing steel products. Cognor owned 36% of the shares of BWS Bewehrungsstahl GmBH until December 15, 2014. The shares of BWS Bewehrungsstahl GmBH were sold by the Group to third parties for the consideration of $93.

Summarized financial information on equity method investees as of December 31, 2014, 2013 and 2012 and for the years then ended is as follows:

Income data	2014	2013	2012
Revenues and other income	36,708	116,967	57,268
Operating income	1,144	17,508	3,664
Net income	480	12,051	2,101

Balance sheet data	At December 31, 2014	At December 31, 2013
Current assets	14,244	24,619
Non-current assets	5,485	9,520
Current liabilities	5,394	10,824
Non-current liabilities	376	623

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

The following table shows movements in the equity method investments:

December 31, 2011	**8,150**
Investment in BWS Bewehrungsstahl GmBH	408
Disposal of RIKT	(822)
Translation difference	379
Dividends	(737)
Share in net income	475
December 31, 2012	**7,853**
Investment in Port Vanino	639,082
Disposal of Port Vanino	(642,389)
Effect of consolidation of former associate	(24)
Translation difference	(507)
Dividends	–
Share in net income	3,589
December 31, 2013	**7,604**
Disposal of BWS Bewehrungsstahl GmBH	(43)
Translation difference	(2,971)
Dividends	–
Share in net income	276
December 31, 2014	**4,866**

During the years ended December 31, 2014, 2013 and 2012, the Group received cash dividends of $nil, $nil and $737, 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.

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.

During the years ended December 31, 2014, 2013 and 2012, the Group received the dividends from these investments in the total amount of $1, $285 and $25,981, respectively, that was recorded in Other (expenses) income, net (Note 23).

(c) Available-for-sale securities

Investments in available-for-sale securities were as follows as of December 31, 2014:

	Cost	Fair value	Unrealized gains	Unrealized losses
Equity securities	55	39	–	(16)
Total available-for-sale securities	**55**	**39**	**–**	**(16)**

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

Investments in available-for-sale securities were as follows as of December 31, 2013:

	Cost	Fair value	Unrealized gains	Unrealized losses
Equity securities	1,683	374	–	(1,309)
Total available-for-sale securities	**1,683**	**374**	**–**	**(1,309)**

As of December 31, 2014 and 2013, available-for-sale securities represented investments in equity securities of well-established Russian energy companies.

10. RELATED PARTIES

During the years ended December 31, 2014, 2013 and 2012, the Group had the following transactions and current balances in settlement with related parties:

	2014				Balances at December 31, 2014		
	Purchases	Sales	Other gain/(loss)	Financing provided (received), net	Receivable from	Payable to	Total outstanding, net
Related metallurgical plants	114,432	105,721	(32,076)	–	6,838	(13,835)	(6,997)
Metallurg-Trust	–	–	479	–	–	–	–
TPTU	4,435	90	–	–	12	(222)	(210)
TRMZ	2,103	1,985	–	–	179	(547)	(368)
Somani	17	–	–	–	847	(17)	830
Calridge Ltd.	–	3	(2,895)	–	4	–	4
Port Vanino	21,871	3,053	9	–	–	–	–
Coalmetbank	662	355	39	–	27	(42)	(15)
Controlling Shareholder	–	–	(206)	–	16	–	16
Other	2,632	803	(6,584)	–	1,380	(869)	511
Total	**146,152**	**112,010**	**(41,234)**	**–**	**9,303**	**(15,532)**	**(6,229)**

	2013				Balances at December 31, 2013		
	Purchases	Sales	Other gain/(loss)	Financing provided (received), net	Receivable from	Payable to	Total outstanding, net
Related metallurgical plants	613,364	168,956	(517,685)	–	33,022	(75,448)	(42,426)
Metallurg-Trust	–	61,066	(195,656	–	–	(1)	(1)
TPTU	5,888	161	–	–	5	(560)	(555)
TRMZ	2,063	1,879	–	–	253	(1,176)	(923)
Somani	1,420	–	–	–	1,231	–	1,231
Calridge Ltd.	–	1	564	–	3,863	–	3,863
Port Vanino	–	4,010	11,638	(204)	2,244	(221)	2,023
Controlling Shareholder	–	–	–	–	–	(29,466)	(29,466)
Other	956	998	(688)	–	16,174	(92)	16,082
Total	**623,691**	**237,071**	**(701,827)**	**(204)**	**56,792**	**(106,964)**	**(50,172)**

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

	2012			
	Purchases	**Sales**	**Other gain/(loss)**	**Financing provided (received), net**
Related metallurgical plants	874,135	413,958	(853,911)	–
Metallurg-Trust	441	316,017	–	–
Usipar	32,351	–	–	–
TPTU	5,210	209	–	–
TRMZ	4,509	1,630	–	–
Somani	–	6,144	–	–
Other	405	359	(798)	3,902
Total	**917,051**	**738,317**	**(854,709)**	**3,902**

(a) Transactions with the related metallurgical plants

In the second half of 2009, certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders ("the related metallurgical plants") became related parties to the Group through Mechel's representation on the board of directors, management and other arrangements. In 2009, the companies that had business transactions with the Group were as follows: Volga Fest, Rostov Electrometallurgical Plant, Vostochnaya Mine, Experimental TES, Zlatoust Metallurgical Plant ("ZMP"), Guryevsk Metallurgical Plant ("GMP"), Volgograd Small Diameter Pipe Plant ("VSDPP"), and Engels Pipe Plant ("EPP"). In addition, in 2010, the Group started transactions with Donetsk Electrometallurgical Plant ("DEMP"), Invicta Merchant Bar, Metrus Trading GmbH, MIR Steel, Nytva, Estar Egypt for Industries. In 2012-2014, the Group continued its operations with the related metallurgical plants, but, in 2013-2014, the volume of these transactions declined significantly. These transactions were carried out in the joint interest of both parties in expanding the Group's operations and products range on the steel market and allowing the related metallurgical plants access to the Group's strong supply and sales network.

In August 2011, the Group acquired 100% of Invicta Merchant Bar Ltd., a steel plant located in Queenborough, the United Kingdom. In December 2011, the Group acquired DEMP (Note 4(c)).

During the years ended December 31, 2014, 2013 and 2012, the Group had the following transactions and current balances in settlement with the related metallurgical plants:

- Re-selling of goods purchased by the Group either from third parties or entities of the former Estar group to the related metallurgical plants. Proceeds related to these sales amounted to $3,860, $25,869 and $222,794 in the years ended December 31, 2014, 2013 and 2012, respectively.

  For part of such transactions, the Group determined that it functioned as a principal, and the amounts of $3,115, $14,304 and $211,154 were included in revenue from sale of goods in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, respectively.

  For the other part of such transactions, the Group determined that their results should be recognized as operating gains. Therefore, they are reported, net of related costs, within other operating income (expenses), net in the consolidated statements of operations and comprehensive income (loss) in the amount of $85, $1,455 and $1,845 for the years ended December 31, 2014, 2013 and 2012, respectively.

- Revenues from sales of products manufactured by the Group and services rendered to the related metallurgical plants amounted to $102,605, $154,653 and $202,805 for the years ended December 31, 2014, 2013 and 2012, respectively.

- Cost of the related metallurgical plants' products used in the Group's production amounted to $32,516, $100,201 and $104,978 for the years ended December 31, 2014, 2013 and 2012, respectively.
- Cost of goods produced by the related metallurgical plants and further sold by the Group to third party customers amounted to $81,915, $513,163 and $769,157, including transportation costs, for the years ended December 31, 2014, 2013 and 2012, respectively. For such transactions, the Group determined that it functioned as a principal, and the amounts of $83,149, $570,511 and $847,745 were included in revenue from the sale of goods in the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, respectively.

The related metallurgical plants used raw materials and semi-finished goods purchased from the Group in their production. The Group concluded that its sales to the related metallurgical plants and the Group's purchases from these entities were not in contemplation with each other and are reported separately in the statement of operations and comprehensive income (loss).

In the second half of 2011, the Group's operations with certain related metallurgical plants (namely VSDPP, EPP and MIR Steel) started to be carried out on tolling terms. In 2013, such operation started with other related metallurgical plants (namely ZMP, GMP, Nytva). Revenues from sales of products (steel pipe, basis steel coils and sheets, long steel) manufactured by the related metallurgical plants for the Group under the tolling agreements amounted to $151,105, $331,419 and $413,087 for the years ended December 31, 2014, 2013 and 2012, respectively. The related cost of goods sold for these transactions amounted to $137,288, $333,963 and $403,492 for the years ended December 31, 2014, 2013 and 2012, respectively. This cost includes cost of tolling services provided by the related metallurgical plants of $27,772, $57,319 and $47,351 for the years ended December 31, 2014, 2013 and 2012, respectively.

In November 2011, the owners of the related metallurgical plants and the Group entered into a loan agreement pursuant to which a loan of $944,530 was granted by the Group. The loan consists of several tranches which bear interest at the range of 1-8.5% p.a. To secure the loan, shares in the major related metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the related metallurgical plants to repay most of the accounts receivable owed to the Group. According to the loan agreement, in the event that the loan is not repaid at maturity (September 30, 2012), the Group is entitled to enforce the pledge over the pledged related metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service.

In September 2012, the Group extended the term of the loan for additional nine months from October 1, 2012, the pledges and guarantees remained the same. From September through December 2012, the loan was partially repaid in the amount of $213,363. To make this repayment, the owners of the related metallurgical plants used the proceeds received by them from the Group for the sale of Cognor and proceeds under a security deposit, as discussed further below.

As of December 31, 2012, the loan balance amounted to $896,445, out of which $15,405 represented interest accrued on extended loan. The interest accrued on the loan amount before the extension was repaid in full. During the year ended December 31, 2013, $5,000 were repaid and the owners of the related metallurgical plants returned the security deposit paid by the Group in the end of 2012 for the acquisition of some assets pledged under the loan agreement.

The Group evaluates the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2014 and 2013, was $nil. This resulted in a $832,013 and $888,015 provision for amounts due from related parties under this loan as of December 31, 2014 and 2013, respectively. The Group has not taken possession of assets provided as collateral because these entities are burdened with substantial amount of debt.

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

Based on the combined design of the above mentioned loan and trading agreements, the Group has determined that the related metallurgical plants are Variable Interest Entities ("VIEs"), and that the Group is not the primary beneficiary of the related metallurgical plants. The Group is limited in its exposure to risks by the net amounts receivable from the related metallurgical plants.

During the years ended December 31, 2014, 2013 and 2012, the Group had the following transactions and current balances in settlement with the related metallurgical plants:

	2014	2013	2012
Revenues			
Steel segment products sales	68,201	103,825	346,938
Mining segment products sales	258	1,956	3,981
Other revenues*	37,262	63,175	63,039
Total revenues	**105,721**	**168,956**	**413,958**
Costs and expenses			
Cost of goods for resale, production and operating expenses	106,031	588,755	842,253
Transportation expenses	8,401	24,609	31,693
Other expenses/(gains)	(349)	–	189
Provision for amounts due from related metallurgical plants	32,425	517,724	919,113
Total expenses	**146,508**	**1,131,088**	**1,793,248**

* including power segment sales and services provided to related metallurgical plants by all segment companies.

As of December 31, 2014 and 2013, the Group had the following current balances in settlement with related metallurgical plants:

	December 31, 2014	December 31, 2013
Assets		
Trade accounts receivable	6,544	17,073
Prepayments and other current assets	294	15,949
Total assets	**6,838**	**33,022**
Liabilities		
Trade accounts payable	13,488	74,384
Advanced received and other payables	309	1,043
Long term payables	38	21
Total liabilities	**13,835**	**75,448**

As of December 31, 2014 and 2013, the amounts of trade accounts receivable and prepayments and other current assets were reduced by $508,083 and $544,478, respectively, of allowance for doubtful accounts. The allowance for doubtful accounts was recognized based on the Group's estimates of future cash inflows from these balances. As of December 31, 2014 and 2013, the amounts of accounts receivable fully covered by the allowance included amounts receivable of $431,723 and $470,809, respectively, described below. In December 2013, the Group, related party (an entity wholly owned by the Controlling Shareholder) and the related metallurgical plants signed an assignment agreement. Under that agreement, the Group assigned to its related party the right to collect amounts due from the related metallurgical plants with the nominal value of $470,809, and the related party is to repay this amount to the Group through November 2017.

Inventories in stock purchased from these entities amounted to $10,206 and $38,443 as of December 31, 2014 and 2013, respectively.

(b) Metallurg-Trust

In 2010, the Group started transactions with a trading company, Metallurg-Trust, a party which can be significantly influenced by the Group through business relationships. Metallurg-Trust is mostly involved in reselling the goods produced by the Russian metallurgical plants described in Note 10(a) above on the domestic market and supplying raw materials and semi-finished goods.

During the years ended December 31, 2014, 2013 and 2012, the Group's sales of pig iron, semi-finished goods, coal and chrome produced by the Group's entities for further supply to the Russian metallurgical plants mentioned above to Metallurg-Trust amounted $nil, $61,066 and $316,017, respectively.

As of December 31, 2014 and 2013, the amounts of accounts receivable from Metallurg-Trust fully covered by the allowance were $110,391 and $190,388, respectively. The allowance was created against the amount of trade receivables based on the Group's expectation of future cash inflows.

(c) Port Vanino

During the year ended December 31, 2013, the Group sold all of its shares of Port Vanino (Note 9). The ordinary shares were partly sold to the Group's related parties: the Controlling Shareholder and Calridge Ltd., a company wholly owned by the Controlling Shareholder, for $5,950 (0.67% of the total shares or 0.9% of the total common shares) and $3,969 (0.45% of the total shares or 0.6% of the total common shares), respectively. As of December 31, 2013, the outstanding balance from Calridge Ltd. to the Group amounted to $3,863. As of December 31, 2014, the outstanding balance from Calridge Ltd. to the Group amounted to $2,250 and it was fully covered by the allowance. In June 2014, the Group recalled some of its representatives from the Board of Directors of Port Vanino and since that date Port Vanino is no longer considered to be a related party to the Group.

In August 2013, the Group received short-term ruble-denominated loan from Port Vanino in the amount of $13,722 at interest rate of 9.6% p.a. As of December 31, 2013, the Group's liability under this debt in the amount of $221 was included in payables to related parties, the loan was fully repaid in 2014. The amount of interest expenses incurred under this loan totaled $286 for the year ended December 31, 2013.

As of December 31, 2013, the Group had receivables from Port Vanino in the amount of $2,244. During the period from January through May 2014 and the year ended December 31, 2013, the Group's sales of raw material and transportation services to Port Vanino amounted to $3,053 and $4,010, respectively, the Group's purchases of services from Port Vanino amounted to $21,817 and $nil, respectively. Other income earned by the Group from transactions with Port Vanino comprised $2,274 during the year ended December 31, 2013.

(d) Usina Siderurgica do Para Ltda (Usipar)

Usipar is a steel company located in Brazil, owned by the Controlling Shareholder, and it became a related party of the Group in September 2010. During the years ended December 31, 2014, 2013 and 2012, the Group's purchases of pig iron from Usipar amounted $nil, $ nil and $32,351, respectively, and the Group's sales of coke and other raw materials to Usipar amounted $nil, $nil and $ nil, respectively. The Group further sold such pig iron to third party customers. For such transactions, the Group determined that it functioned as a principal, and the amounts of $nil, $ nil and $34,820 were included in revenue from the sale of goods in the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014 and 2013, the Group had no trade accounts receivable from Usipar either prepayments made to Usipar. During the year ended December 31, 2012, Usipar repaid all amounts due to the Group.

(e) 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, 2014, 2013 and 2012, the Group purchased transportation services in the amounts of $4,435, $5,888 and $5,210, respectively.

(f) 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, 2014, 2013 and 2012, the Group purchased repair services in the amounts of $2,103, $2,063 and $4,509, respectively.

(g) Coalmetbank

Coalmetbank (formerly referred to as Uglemetbank) is a middle size regional bank, which provides cash settlement services for the Group. The Group treats Coalmetbank as a related party to the Group from the second half of 2014 because part of its shares is owned by the Group's key management and the Controlling Shareholder. During the period when Coalmetbank was a related party in 2014, the Group's purchases of banking services amounted to $662. The outstanding cash balance in Coalmetbank was $38,802 as of December 31, 2014.

(h) Other

During the year ended December 31, 2013, the Group signed a number of re-assignment agreements with respect to the accounts receivable due from the related metallurgical plants and Metallurg-Trust in the total amount of $99,367. The Group disclosed the balances due from assignees as receivables from related parties. As a result of the re-assignment transactions, the Group received cash of $81,285. As of December 31, 2013, the balance due from related parties amounted to $18,082 and was to be paid within 180-365 days from the date of the agreement. As of December 31, 2014, the balance due from related parties amounted to $5,084 and was provided for based on the Group's expectation of future cash inflows. The re-assignment transactions had no effect on the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2014 and 2013.

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

11. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net are comprised of:

	At December 31, 2014	At December 31, 2013
Land	48,601	93,992
Buildings and constructions	993,251	1,451,860
Transfer devices	69,466	118,563
Operating machinery and equipment	1,578,227	2,480,728
Transportation equipment and vehicles	555,529	903,342
Tools, furniture, fixtures and other	45,971	53,355
	3,291,045	**5,101,840**
Less: accumulated depreciation	(1,333,406)	(2,012,800)
Operating property, plant and equipment, net	**1,957,639**	**3,089,040**
Mining plant and equipment	220,106	365,315
Less: accumulated depletion	(46,234)	(73,435)
Mining plant and equipment, net	**173,872**	**291,880**
Construction-in-progress	1,812,916	3,345,196
Property, plant and equipment, net	**3,944,427**	**6,726,116**

Included within construction-in-progress are advances to suppliers of equipment of $30,267 and $60,872 as of December 31, 2014 and 2013, respectively. During the years ended December 31, 2014 and 2013, the Group incurred interest expenses of $938,071and $968,029, respectively, of which interest capitalized in the cost of property, plant and equipment was $144,843 and $227,429, respectively. The depreciation charge amounted to $322,747 and $366,850 for the years ended December 31, 2014 and 2013, respectively.

Mining plant and equipment, net included mining construction in progress in the amount of $97,043 and $152,075 as of December 31, 2014 and 2013, respectively.

Construction-in-progress includes costs of acquisition of property, plant and equipment and may include the capitalized costs necessary to deliver the asset to its intended location and prepare it for its productive use. The internally developed assets at construction-in-progress stage may also include material, direct labor costs, and allocable material and manufacturing overhead costs clearly related to the construction.

Property, plant and equipment, net includes capitalized costs related to the Elga project (construction-in-progress as well as mining plant and equipment and operating property, plant and equipment). The amount of capitalized costs related to the Elga project (coal deposit complex, railroad, bridges, roads, etc.) were $1,678,976 and $2,515,707 as of December 31, 2014 and 2013, respectively. The decrease in capitalized costs of the Elga project is related to devaluation of the Russian ruble against the U.S. dollar.

The Group decided to abandon and dispose of certain production equipment as a result of changes in its production strategy. For the year ended December 31, 2014, the loss resulting from write-off of equipment amounted to $17,395 out of which $8,560, $5,975 and $2,860 related to the Mining, Steel and Energy segments, respectively. For the year ended December 31, 2013, the loss resulting from the write-off of equipment amounted to $17,254 out of which $16,358 and $896 related to the Mining and Steel segments, respectively.

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

According to the results of the impairment analysis of long-lived assets, impairment losses of $120,237, $177,417 and $245,908 were recognized by the Group for the years ended December 31, 2014, 2013 and 2012, respectively (Note 24).

12. MINERAL LICENSES, NET

Mineral licenses, net are comprised of the following:

	December 31, 2014	December 31, 2013
Coal deposits	942,556	1,620,693
Iron ore deposits	48,703	83,868
Limestone deposits	1,539	2,645
Quartzite deposits	166	286
Mineral licenses before depletion	**992,964**	**1,707,492**
Accumulated depletion	(273,013)	(414,022)
Mineral licenses, net	**719,951**	**1,293,470**

Most of existing mineral licenses were recorded upon acquisition of mining 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.

To determine the value of the mineral licenses as of December 31, 2014, 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. The Group's mineral reserves and deposits are situated on the land belonging to government and regional authorities. Mining minerals require a subsoil license from the state authorities with respect to identified mineral deposits. The Group obtains licenses from such authorities and pays certain taxes to explore and produce from these deposits. These licenses expire up to 2037, with the most significant licenses expiring between 2016 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.

The Group holds the license for the development of the Elga coal deposit, located in the Far Eastern part of the Russian Federation. The current license expires in 2020 and is subject to renewal conditioned upon complying with certain commitments and obligations undertaken by the Group under the Purchase and Sales Agreement and the license requirements. The license terms were amended in June 2013, and the Group is required to meet the following construction deadlines and operational milestones: (a) complete construction of the first phase of the Elga coal complex by August 1, 2017; (b) reach annual coal production capacity of 9.0 million tonnes by August 1, 2018; (c) reach annual coal production capacity of 18.0 million tonnes by December 31, 2021; and (d) commission a coal washing plant with an annual capacity of 9.0 million tonnes by December 31, 2017. All amendments of the terms of the license were approved by the Ministry of Natural Resources and Ecology.

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

The Group has significant commitments for the construction of the railway (Note 26). Management believes that as of the date when the financial statements were issued, the Group is in compliance with the requirements and commitments set by the license.

13. OTHER NON-CURRENT ASSETS

Other non-current assets are comprised of the following:

	December 31, 2014	December 31, 2013
Advance payment to non state pension fund	9,866	17,177
Intangible assets, net	8,898	14,226
Deferred assets from sale and lease back	7,175	11,582
Capitalized loan origination fees	921	82,375
Other	3,593	2,501
Total other non-current assets	**30,453**	**127,861**

As of December 31, 2014 and 2013, advanced payments of $9,866 and $17,177 were made by Yakutugol in terms of agreed pension benefit program to Mechel Fund non-state pension funds (Note 17).

As of December 31, 2014 and 2013, the gross carrying amount of intangible assets was $15,281 and $21,289, respectively. As of December 31, 2014 and 2013, the accumulated amortization of intangible assets was $6,383 and $7,063, respectively.

As of December 31, 2014 and 2013, the amounts of $921 and $71,815, 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 (Note 14). The capitalized origination fees are classified between short-term and long-term assets in a manner consistent with the related debt. The Export Credit Agency ("ECA") fees capitalized within loan origination fees amounted to $nil and $10,560 as of December 31, 2014 and 2013, respectively. The ECA fees are the export credit insurance cover issued by the respective Export Credit Agency acting as an intermediary between national governments and exporters to issue export financing.

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

14. DEBT

	December 31, 2014		December 31, 2013	
Short-term borrowings and current portion of long-term debt	**Amount**	**Rate p.a., %**	**Amount**	**Rate p.a., %**
Russian ruble-denominated:				
Banks and financial institutions	205,094	8.0-27.0	201,836	9.0-15.3
Bonds issue	48,075	13.5	–	–
Corporate lenders	1,154	6.4	2,397	8.3-10.0
Total	**254,323**		**204,233**	
U.S. dollar-denominated:				
Banks and financial institutions	4	–	128,771	2.3-8.0
Total	**4**		**128,771**	
Euro-denominated:				
Corporate lenders	3,160	2.8	4,833	2.8
Total	**3,160**		**4,833**	
Kazakh tenge-denominated:				
Banks and financial institutions	–	–	10,416	9.5
Total	**–**		**10,416**	
Turkish lira-denominated:				
Banks and financial institutions	–	–	2,126	9.0
Total	**–**		**2,126**	
Czech krona-denominated:				
Corporate lenders	487	2.5	–	–
Total	**487**		**–**	
Total short-term borrowings	257,974		350,379	
Current portion of long-term debt including debt with loan covenant violations of $4,297,512 in 2014	6,420,575		1,127,775	
Total short-term borrowings and current portion of long-term debt including debt with loan covenant violations	**6,678,549**		**1,478,154**	

(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, 2014 and 2013 was 14.3% and 9.4% p.a., respectively. The weighted average interest rate of the U.S. dollar-denominated short-term borrowings as of December 31, 2013 was 7.1% p.a. The weighted average interest rate of the euro-denominated short-term borrowings as of December 31, 2014 and 2013 was 2.8% p.a. The weighted average interest rate of the Kazakh tenge-denominated short-term borrowings as of December 31, 2013 was 9.5% p.a. The weighted average interest rate of the Turkish lira-denominated short-term borrowings as of December 31, 2013 was 9.0% p.a. The weighted average interest rate of the Czech krona-denominated short-term borrowings as of December 31, 2014 was 2.5% p.a.

	December 31, 2014		December 31, 2013	
Long-term debt, net of current portion:	**Amount**	**Rate p.a., %**	**Amount**	**Rate p.a., %**
Russian ruble-denominated:				
Banks and financial institutions	2,205,472	10.1-35.6	3,845,766	7.5-14.6
Bonds issue	309,447	8.4-13.0	1,306,303	8.3-13.0
Corporate lenders	65	6.4	189	–
Total	**2,514,984**		**5,152,258**	
U.S. dollar-denominated:				
Syndicated loan	1,003,964	5.7-7.7	1,003,964	5.7
Banks and financial institutions	2,462,144	1.6-10.0	1,877,063	1.7-10.9
VEB	167,288	8.0	–	–
Total	**3,633,396**		**2,881,027**	
Euro-denominated:				
Banks and financial institutions	438,727	1.0-5.7	607,300	1.1-6.8
Total	**438,727**		**607,300**	
Turkish lira-denominated:				
Banks and financial institutions	–	–	467	8.5
Total	**–**		**467**	
Total long-term obligations	6,587,107		8,641,052	
Less: current portion including reclassification of $4,297,512 with loan covenant violations in 2014	(6,420,575)		(1,127,775)	
Total long-term debt, net of current portion	**166,532**		**7,513,277**	

The weighted average interest rate of the ruble-denominated long-term borrowings as of December 31, 2014 and 2013 was 19.1% and 10.9% p.a., respectively. The weighted average interest rate of the U.S. dollar-denominated long-term borrowings as of December 31, 2014 and 2013 was 7.4% and 6.6% p.a., respectively. The weighted average interest rate of the euro-denominated long-term borrowings as of December 31, 2014 and 2013 was 2.7% and 3.1% p.a., respectively. The weighted average interest rate of the Turkish lira-denominated long-term borrowings as of December 31, 2013 was 8.5% p.a.

Aggregate scheduled maturities of the debt outstanding as of December 31, 2014, are as follows:

Payable by	
2015 (current portion)	6,678,549
2016	165,560
2017	243
2018	243
2019	243
Thereafter	243
Total	**6,845,081**

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

The unused portion under all credit facilities as of December 31, 2014 and 2013 was $33,403 and $280,829, respectively. As of December 31, 2014, the Group's credit facilities provided aggregated borrowing capacity of $6,878,484, of which $6,678,549 expires within a year.

The outstanding balances of short-term and long-term debt by denominated currencies and major banks as of December 31, 2014 and 2013 were as follows:

Short-term and long-term debt	December 31, 2014 Amount	December 31, 2013 Amount
Russian ruble-denominated:		
VTB	1,114,957	1,742,026
Gazprombank	599,538	992,550
Sberbank	583,187	1,220,212
Bonds	357,522	1,306,303
Uralsib	60,070	–
Eurasian Development Bank	37,343	71,322
Other	16,690	24,078
Total	**2,769,307**	**5,356,491**
U.S. dollar-denominated:		
Gazprombank	1,388,889	1,313,153
Syndicated credit facility	1,003,964	1,003,964
Sberbank	777,981	100,000
VEB	167,288	33,348
BNP Paribas	154,869	168,948
MCB	105,000	105,000
Raiffeisen Bank	29,600	43,250
Alfa-bank	–	150,000
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	–	51,429
ING Bank	–	19,260
Uralsib	–	10,000
Other	5,809	11,446
Total	**3,633,400**	**3,009,798**
Euro-denominated:		
BNP Paribas (formely Fortis)	187,923	227,733
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	53,204	67,305
Banca Nazionale del Lavoro (formely Fortis)	52,871	66,295
ING Bank	38,924	47,844
VTB	33,866	44,929
Gazprombank	18,829	37,098
Raiffeisen Bank	7,257	10,260
Uralsib	–	48,090
Other	49,013	62,579
Total	**441,887**	**612,133**
Kazakh tenge-denominated:		
Sberbank	–	10,416
Total	**–**	**10,416**
Turkish lira-denominated:		
Other	–	2,593
Total	**–**	**2,593**
Czech krona-denominated:		
Other	487	–
Total	**487**	**–**
Total short-term and long-term debt including debt with loan covenant violations in 2014	**6,845,081**	**8,991,431**

(a) Revolving credit lines

In 2010-2014, the Group negotiated revolving credit agreements providing for unrestricted borrowings up to $508,307 with several banks. These revolving credit lines allow the Group to withdraw, repay and re-draw in the agreed amounts, timing and number of times until the arrangement expires. Borrowings bear interest at 4.4-12.4% p.a., and are continuously renewable at the Group's option for 1-3 years provided there is compliance with the terms of the agreement.

As of December 31, 2014, the Group does not intend to renew obligations incurred under those agreements for a period extending beyond one year from the balance sheet date.

(b) Syndicated loan

In September 2010, the Group executed a $2,000,000 syndicated pre-export facility agreement and refinanced its remaining debt obligations under previously obtained credit facilities. The facility was split between CMP, SKCC, SUNP and Yakutugol in the amounts of $95,238, $857,143, $190,476 and $857,143, respectively. The facility was drawn in two tranches, a 3-year and a 5-year tranche in the amount of $800,000 and $1,200,000, respectively. The repayment was scheduled in monthly installments after the 9 and 15 month grace periods, respectively. The credit facility bears interest at a rate of LIBOR plus 4.0-5.8% p.a.

The Group appointed ING Bank N.V. and the Royal Bank of Scotland N.V. as Co-ordinators. In addition, BNP Paribas SA, CJSC UniCredit Bank, Commerzbank Aktiengesellschaft, HSBC Bank plc, Natixis, OJSC "Nordea Bank", Raiffeisen Zentralbank Oesterreich AG, Société Générale, UniCredit Bank AG, VTB Bank (Austria) AG, VTB Bank (Deutschland) AG and VTB Bank (France) SA acted as Mandated Lead Arrangers and Morgan Stanley and Credit Suisse as Lenders for the facility.

In December 2012, the Group's subsidiaries Yakutugol and SKCC and a syndicate of banks coordinated by ING Bank N.V., Société Générale, UniCredit, JSCB Rosbank and ABN AMRO Bank N.V entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total amount of $1,003,964. The amendments provide that the loan, which was in a monthly repayment phase, will be repayable in equal monthly installments from December 2013 through August 2015. CMP and SUNP repaid the facility in the amount of $252,275 by the end of December 2012.

In December 2013, the Group's subsidiaries Yakutugol and SKCC and the syndicate of banks signed an amendment agreement that extends the grace period and maturity from December 2013 and August 2015, respectively, till December 2014 and December 2016, respectively. As of December 31, 2013, it bore interest at LIBOR plus 5.5% p.a. As of December 31, 2014, it bears interest at LIBOR plus 5.5% p.a. and LIBOR plus 7.5% p.a. on the outstanding balances of $963,805 and $40,159, respectively. The increased interest rate is applied to the overdue amounts. As of December 31, 2014, the Group's overdue interest on syndicated credit facilities amounted to $14,920. The Group is currently negotiating the refinancing of this overdue amount with the syndicate of banks.

(c) VTB facilities

During 2008, VTB provided a short-term ruble-denominated loan to the Group's subsidiaries (CMP, SKCC and Yakutugol) bearing interest at 12.0% p.a., which was increased by the bank in November 2009 up to 14.6% p.a. for Yakutugol and SKCC and up to 14.0% p.a. for CMP.

In September 2010, the interest rate was decreased to 9.8% p.a. for SKCC. In April 2011, the interest rate was decreased to 8.4% p.a. for SKCC and Yakutugol. In accordance with an amendment to the agreement, the loan should have been repaid in November 2012. In April 2012, VTB signed an amendment resulting in a repayment of the facility in four equal installments starting from July 2014 through April 2015.

The interest rate was agreed to be MosPrime plus 4.5% p.a. In 2013, the interest rate was decreased to MosPrime plus a margin 3.8% p.a. In April 2014, SKCC's and Yakutugol's loans were converted into U.S. dollar-denominated loans of $292,020 and $169,779, respectively, bearing interest at LIBOR plus 4.8% p.a. In July 2014, SKCC's and Yakutugol's loans were refinanced and converted into ruble-denominated loans. The amendment extended the grace period and maturity from April 2015 through April 2018, bearing fixed interest at 12.5% p.a. The outstanding balance as of December 31, 2014 and 2013 was $281,307 and $415,531, respectively. The Group is involved in litigations with VTB in connection with such a conversion (Note 26 (d)).

In May 2014, the Group refinanced the outstanding balance of VTB facility in the amount of 1.6 billion rubles ($28,435) received by SKCC. The amendment resulted in a new repayment schedule of the facility in 13 equal payments starting from April 2015 through April 2018. In 2014, the interest rate was agreed to be MosPrime plus a margin of 5.7% p.a. The outstanding balance as of December 31, 2014 and 2013 was $28,435 and $72,525, respectively.

In April 2013, the Group entered into a 40 billion Russian rubles ($1,281,698 as of the date of agreement) credit facility agreement with VTB for a period of 5 years. The interest rate was agreed to be MosPrime plus 4.95% p.a. The facility allows a 15-month grace period and is to be repaid in equal installments on a quarterly basis. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to refinance other obligations of the companies within the Group (including redemption of ruble bonds). The outstanding balance as of December 31, 2014 and 2013 was $724,046 and $1,230,422, respectively (including outstanding interest accrued in the amount of $13,042 and $8,272 as of December 31, 2014 and 2013, respectively).

In April 2014, the Group and VTB agreed on conditions of restructuring and refinancing of various ruble-denominated credit facilities amounting in aggregate to $1,357,979 (at exchange rates as of the dates of agreements) maturing in four years with a grace period till April 2015. The interest rate remained unchanged under the most credit tranches. In addition, in May 2014, VTB provided a loan to redeem the bonds in the amount of 3.8 billion Russian rubles ($67,288) bearing interest at MosPrime plus 5.7% p.a. On December 19, 2014, the MosPrime 3-month rate increased to 29.93% p.a. resulting in a significant increase in nominal interest rate.

During 2010-2014, VTB also provided euro-denominated long-term and short-term loans to the Group, bearing interest at 5.3% p.a. The outstanding balance as of December 31, 2014 and 2013 was $33,866 and $44,929, respectively.

As of December 31, 2014, the Group had the overdue interest on VTB credit facilities in the amount of $90,228. The Group is currently negotiating the settlement process for the overdue amount with VTB. The amount of fines and penalties on the overdue amounts was $19,994 as of December 31, 2014.

(d) Gazprombank facilities

In February 2010, the Group signed a prolongation agreement for a $1,000,000 U.S. dollar-denominated credit facility with Gazprombank. According to this agreement, the credit facility including the short-term portion of $480,000 falling due in 2010 was rescheduled to be repaid in 2013-2015. Starting from October 25, 2011 through February 6, 2015, the credit facility bears interest at LIBOR plus 5.3% p.a.

In April 2013, Yakutugol and SKCC signed new loan agreements for the $889,000 U.S. dollar-denominated credit facilities resulting in a rescheduling of outstanding short-term balances of $202,443 and $250,000, respectively, maturing in five years with a three year grace period and bearing interest at 7.5% p.a. Yakutugol's outstanding balance as of December 31, 2014 and 2013 was $488,889 and $461,889, respectively, and unused portion as of December 31, 2013 was $27,111.

SKCC's outstanding balance as of December 31, 2014 and 2013 was $400,000 and $351,264, respectively, and unused portion as of December 31, 2013 was $48,736.

In April 2012, Yakutugol and SKCC also signed loan agreements with Gazprombank for credit facilities in the amount of $500,000 maturing in five years with a three year grace period bearing interest at 7.5% p.a. The outstanding balance remained unchanged and amounted $500,000 as of December 31, 2014 and 2013.

The obligations under the credit agreement are guaranteed by Mechel OAO, Mechel Mining OAO, SKCC and Yakutugol.

As of December 31, 2014, the Group's overdue principal amount and overdue interest on Gazprombank credit facilities amounted to $42,000 and $42,780, respectively. The Group is currently negotiating the refinancing and settlement process of these overdue amounts with Gazprombank.

(e) Sberbank facilities

On October 9, 2012, Sberbank opened four credit lines to SKCC in the total amount of 24 billion Russian rubles ($772,258 as of the dates when facilities were obtained) for the purpose of working capital financing. In December 2013, the conditions of two agreements of 16 billion Russian rubles were changed. Two credit lines of 12.9 billion rubles were separated, and a cross currency option was included in these credit lines. Conditions under the remaining two credit lines of 3.1 billion rubles were not changed, the aggregate number of credit lines increased from four to six. The repayment should be made in eight equal installments starting from December 2015 through October 2017. In December 2014, 20.9 billion Russian rubles ($677,980 at strike exchange rates under the agreements) were converted into U.S. dollars based on the cross currency option contract with Sberbank (Note 15). As of December 31, 2014 and 2013, the outstanding balance was $733,084 and $692,329, respectively.

Interest is payable at a floating rate varying from 12.1% p.a. to 13.1% p.a. for two of six credit lines denominated in rubles and from 10.0% p.a. to 11.0% p.a. for other four credit lines denominated in U.S. dollars. Prior to conversion of Russian rubles to U.S. dollars the credit lines bore interest at 10.5% p.a. to 11.5% p.a. The rate applicable to each loan depends on the ratio of SKCC's revenue and the current amount of the liabilities under the loan. As of December 31, 2014, the interest rates were 10.0% p.a for credit lines denominated in U.S. dollars and 12.1% p.a. for credit lines denominated in Russian rubles. The obligations under the credit line agreement are guaranteed by Yakutugol, Mechel Mining OAO and Mechel OAO.

In addition to a 24 billion Russian rubles ($772,258 at exchange rates as of the dates when facilities were obtained) credit facility, during 2009-2014, Sberbank provided long-term and short-term ruble, U.S. dollar, Kazakh tenge and euro-denominated loans to the Group's subsidiaries bearing interest at 6.2-12.4% p.a. The outstanding balance as of December 31, 2014 and 2013 was $413,005 and $638,299, respectively.

In February 2014, Sberbank provided a loan to redeem the bonds in the amount of 12 billion rubles ($215,079) bearing interest at 12.0% p.a.

As of December 31, 2014, the Group's overdue principal amount and overdue interest on Sberbank credit facilities amounted to $5,900 and $35,733, respectively. The Group is currently negotiating the refinancing and settlement process of these overdue amounts with Sberbank.

(f) VEB facility

On October 24, 2013, Elgaugol OOO ("Elgaugol") and the Russian State Corporation "The Bank for Development and Foreign Economic Affairs" ("VEB") signed an agreement for a short-term $150,000 credit facility falling due in April 2014. The credit facility was fully drawn in 2014. This bridge facility is the first tranche of a $2.5 billion VEB financing for the Elga coal project approved by the VEB's Supervisory Board in September 2013. The use of proceeds under the facility is limited to the development of the Elga coal project. The facility bears interest at 8% p.a. In March 2014, the Group signed two other agreements with VEB for the remaining tranches financing for the Elga coal project and refinancing the current debt under bridge facility. In 2014, the Group obtained $20,850 for a payment of commission fee to receive the credit line of $2.5 billion.

Elgaugol's outstanding balance as of December 31, 2014 and 2013 was $167,288 and $33,348, and unused portion as of December 31, 2014 and 2013 was $nil and $116,652, respectively. The Group is currently negotiating the refinancing of the overdue balance of $146,438 with the bank.

(g) Bonds

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 as of the placement date). 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 twelfth coupon periods is set as equal to that of the first period. The interest rate for the thirteenth to the sixteenth coupon periods was set at 11.3% p.a. The interest rate for the seventeenth to the twenty-second coupon periods was set at 13% p.a. The interest rate for the twenty-third to the twenty-fourth coupon periods was set at 8% p.a. The interest rate for the twenty-fifth to the twenty-eight coupon periods is set by the Group and made public 5 days before the respective coupon period starts. Bondholders have an option to demand repayment of the bonds each half a year at par value starting January 26, 2015. The obligatory redemption date is July 21, 2016. Bonds are secured by a guarantee issued by Yakutugol. The costs related to the issuance of bonds in the amount of $1,901 were capitalized and were amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2014 was $16,940 and is classified as current debt as the Group had ability and intent to pay off the bonds in case of early redemption. On January 26, 2015, these bonds were redeemed in the amount of $5,783.

On September 7, 2010, Mechel OAO issued two 5,000,000 ruble-denominated bonds in an aggregate principal amount of 10 billion Russian rubles ($327,042 as of the placement date). 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 10.0% p.a. The interest rate for the second to the tenth coupon periods is set as equal to that of the first period. The interest rate for the eleventh to twentieth 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 September 3, 2015. The obligatory redemption date is August 25, 2020. The costs related to the issuance of bonds in the amount of $808 were capitalized and are amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2014 was $105,055 and is classified as current debt as the Group had ability and intent to pay off the bonds in case of early redemption.

On February 22, 2011, Mechel OAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of 10 billion Russian rubles ($342,996 as of the placement date). 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 8.3% p.a. The interest rate for the second to the sixth coupon periods is set as equal to that of the first period. The interest rate for the seventh to eight coupon periods is set at 13% p.a. The interest rate for the ninth to eleventh coupon periods is set at 8% p.a. The interest rate for the twelfth to twentieth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The costs related to the issuance of bonds in the amount of $2,061 were capitalized and are amortized to interest expense over the redemption date of bonds. The obligatory redemption date is February 9, 2021. The bondholders have an option to demand repayment of the bonds at par value starting February 19, 2015. The balance outstanding as of December 31, 2014 was $32,850 and is classified as current debt as the Group had ability and intent to pay off the bonds in case of early redemption. On February 24, 2015 these bonds were redeemed in the amount of $661.

On June 9, 2011, Mechel OAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of 10 billion Russian rubles ($361,210 as of the placement date). 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 8.4% p.a. The interest rate for the second to the tenth coupon periods is set as equal to that of the first period. The interest rate for the eleventh to twentieth 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 June 6, 2016. The obligatory redemption date is May 27, 2021. The costs related to the issuance of bonds in the amount of $1,095 were capitalized and are amortized to interest expense over the redemption date of bonds. The balance outstanding as of December 31, 2014 in the amount of $106,379 is classified as long-term debt.

On June 14, 2011, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($179,916 as of the placement date). 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 8.4% p.a. The interest rate for the second to the tenth coupon periods is set as equal to that of the first period. The interest rate for the eleventh to twentieth 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 June 9, 2016. The obligatory redemption date is June 1, 2021. The costs related to the issuance of bonds in the amount of $487 were capitalized and are amortized to interest expense over the redemption date of bonds. The balance outstanding as of December 31, 2014 in the amount of $58,684 and is classified as long-term debt.

On February 14, 2012, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($167,295 as of the placement date). 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 10.3% 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 to sixth coupon periods is set at 13% p.a. The costs related to the issuance of bonds in the amount of $573 were capitalized and are amortized to interest expense over the redemption date of bonds. The bondholders have an option to demand repayment of the bonds at par value starting February, 2014. The obligatory redemption date is February 10, 2015. The balance outstanding as of December 31, 2014 was $37,614 and is classified as current debt as the Group had ability and intent to pay off the bonds in case of early redemption. The bonds were redeemed on February 10, 2015 in full amount.

(h) Other loans

In addition to U.S. dollar-denominated credit facility issued for Yakutugol and SKCC, Gazprombank provided long-term ruble and euro-denominated loans to the Group's subsidiaries bearing interest at 5.4-14.0% p.a. The outstanding balances as of December 31, 2014 and 2013 were $618,367 and $1,029,647, respectively. As of December 31, 2014, the Group's overdue principal amount and overdue interest on these Gazprombank credit facilities amounted to $88,622 and $9,968, respectively.

In 2012, Uralsib Bank provided BMP and Mecheltrans with long-term U.S. dollar and euro-denominated loans bearing interest at 6.8-7.3% p.a. In December 2013, the Group signed the agreements to refinance the existing facilities of BMP and Mecheltrans, subject to a repayment in different installments and currencies during the period of April 2014-February 2015 bearing interest at 9-17% p.a. The outstanding balance as of December 31, 2014 and 2013 was $60,070 and $58,090, respectively.

During 2006-2013, UniCredit Bank provided short-term and long-term U.S. dollar, ruble and euro-denominated loans to the Group's subsidiaries bearing interest at 1.9-2.7% p.a. The outstanding balance as of December 31, 2014 and 2013 was $53,204 and $118,734, respectively. As of December 31, 2014, the Group's overdue principal amount and overdue interest on UniCredit Bank credit facilities amounted to $2,346 and $123, respectively.

During 2007-2013, Banca Nazionale del Lavoro S.p.A. (BNL) and BNP Paribas provided the Group's subsidiaries with U.S. dollar and euro-denominated loans bearing interest at 1.4-7.1% p.a. The outstanding balance as of December 31, 2014 and 2013 was $395,663 and $462,976, respectively. As of December 31, 2014, the Group's overdue principal amount and overdue interest on BNL and BNP Paribas credit facilities amounted to $34,466 and $508, respectively.

During September 2013, Alfa-bank provided CMP with long-term U.S. dollar-denominated loans bearing interest at 10.9% p.a. in the total amount of $150,000. The outstanding balance as of December 31, 2014 was $nil. The Group and Alfa-bank signed the amendment to the loan agreement in March 2014 rescheduling the credit facility under which the loan was repaid in March-April 2014.

During 2011-2012, Eurasian Development Bank provided Yakutugol with a long-term ruble-denominated loan bearing interest at 11.5% in the total amount of $95,319 (as of the date of agreement). The repayment should be made in twelve equal installments starting from September 2013 through April 2016. The outstanding balance as of December 31, 2014 and 2013 was $37,343 and $71,322, respectively. The overdue amount was $12,448 as of December 31, 2014.

In 2008-2013, ING bank provided the Group's subsidiaries with short-term and long-term multi-currency-denominated loans bearing interest at 1.3-3.8% p.a. The outstanding balance as of December 31, 2014 and 2013 was $38,924 and $67,104, respectively. As of December 31, 2014, the Group's overdue principal amount and overdue interest on ING credit facilities amounted to $3,372 and $169, respectively.

In 2009-2012, Raiffeisenbank provided the Group's subsidiaries with short-term and long-term multi-currency-denominated loans bearing interest at 2.3-5.7% p.a. The outstanding balance as of December 31, 2014 and 2013 was $36,857 and $53,510, respectively. As of December 31, 2014, the Group's overdue principal amount and overdue interest on Raiffeisenbank credit facilities amounted to $31,400 and $96, respectively. In March 2015, the overdue credit facilities of $29,091 were refinanced (refer to Note 27).

In 2013, Moscow Credit Bank ("MCB") provided the Group with a short-term U.S. dollar-denominated loan bearing interest at 8.0% p.a. In December 2014, MCB signed an amendment resulting in a new repayment schedule of the facility with repayment scheduled in February 2016. The outstanding balance as of December 31, 2014 and 2013 was $105,000 and $105,000, respectively.

The outstanding balances under other loans agreements amounted to $71,998 and $100,697 as of December 31, 2014 and 2013, respectively. As of December 31, 2014, the Group's overdue principal amount and overdue interest on other loans amounted to $9,367 and $722, respectively. In addition to the amount disclosed in Note 15(c), the fines and penalties on overdue amounts of $6,957 were recorded in Accrued expenses and other current liabilities in the consolidated balance sheet as of December 31, 2014. The respective expenses were recognized as interest expense in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2014. The Group is currently negotiating the refinancing of the overdue amounts with all the banks.

(i) Pledges

As of December 31, 2014, the syndicated pre-export credit facilities are secured by 1,010,498 common shares of Yakutugol (25% plus 1 of total common shares) and 9,027,306 common shares of SKCC (25% plus 1 of total common shares).

The indebtedness under the credit facilities with Gazprombank is secured by the pledge of 1,010,498 common shares of Yakutugol (25% plus 1 of total common shares), 9,027,306 common shares of SKCC (25% plus 1 of total common shares) and 62,533 common shares of KMP (25% plus 1 of total common shares) as of December 31, 2014.

The indebtedness under the credit facility of $791,334 with VTB is secured by the pledge of 5,466,675,001 common shares of Mechel Mining OAO (37.5% plus 1 of total common shares) as of December 31, 2014.

The indebtedness under the credit facilities provided by Sberbank to CMP totaling $501,250 and $481,756 as of December 31, 2014 and 2013, respectively, is secured by the pledge of 1,866,711 common shares of BMP (25% plus 1 share of total common shares) and 3,644,450,001 common shares of Mechel Mining OAO (25% plus 1 share of total common shares).

The indebtedness under the credit facility provided by BNP Paribas to CMP totaling $342,792 and $396,681 as of December 31, 2014 and 2013, respectively, is secured by the pledge of 632,393 common shares of CMP (20% of total common shares).

The indebtedness under the credit facilities of $467,452 provided by Gazprombank to CMP, Mechel Service, Mechel-Energo, BMP, USP are secured by the pledge of 266,911 common shares of Izhstal (25% plus 1 of total common shares) and 136,942 common shares of USP (25% plus 1 of total common shares) as of December 31, 2014.

The indebtedness under the long-term credit facility of $60,070 provided by Uralsib Bank in December 2014 to USP and BMP is secured by the pledge of 27,380 common shares of USP (5% of total common shares).

The indebtedness under the credit facility of $167,288 provided by VEB to Elgaugol is secured by the pledge of 75,038 common shares of KMP (30% of total common shares) and 49% of Elgaugol share.

The indebtedness under the credit facility of $105,000 provided by MCB to Mechel-Service is secured by the pledge of 25% share capital of Mecheltrans and the pledge of 100% share capital of Fincom-Invest.

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

As of December 31, 2014 and 2013, the carrying value of property, plant and equipment pledged under the loan agreements amounted to $495,153 and $935,251, respectively. Carrying value of inventories pledged under the loan agreements amounted to $65,128 and $27,165 as of December 31, 2014 and 2013, respectively. Accounts receivable pledged as of December 31, 2014 and 2013 amounted to $6,810 and $11,995, respectively. Third party bonds of $2,026 and $nil as of December 31, 2014 and 2013, respectively, were pledged under the loan agreements.

(j) Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, minimum value of shareholders' equity and certain cross-default provisions. The covenants also include, among other restrictions, limitations on: (1) indebtedness of certain companies in our group; (2) amount of dividends on our common and preferred shares; and (3) amounts that can be spent for capital expenditures, new investments and acquisitions. Covenant breaches if not waived generally permit lenders to demand accelerated repayment of principal and interest.

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2014:

Restrictive covenant	Requirement	Actual as of 31 December, 2014
Mechel's Adjusted Shareholders' Equity, as defined in respective loan agreements	Greater than or equal to $3,000,000	$2,610,255
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.0:1.0-1.2:1.0	0.8:1.0-0.9:1.0
Mechel's Net Borrowings	Not exceed $10,500,000-$11,000,000	$6,774,280-$6,878,949
Mechel's Net Debt to EBITDA	Not exceed 10.0:1.0	10.3:1.0-10.4:1.0

As of December 31, 2014, the Group was not in compliance with all major Group's restrictive financial covenants, except for the targeted amount of Net borrowings. There was a default on payments of principal and interest in the amount of $416,517 and $195,256, respectively. As a result, the long-term debt of $4,297,512 was reclassified to short-term liabilities as of December 31, 2014 (refer to Note 2 for a discussion of notices of default and negotiations for the settlement of covenant violations). The financial covenants of Mechel-Mining Group were not tested as of December 31, 2014.

15. FAIR VALUE MEASUREMENTS

FASB ASC 820, "Fair Value Measurement" ("ASC 820"), 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)

(a) Assets and liabilities measured at fair value on a recurring basis

The Group has segregated all financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2014 and 2013 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, 2014	Level 1	Level 2	Level 3	Fair Value Measurements
Assets				
Bonds	2,026	–	–	**2,026**
Total assets	**2,026**	**–**	**–**	**2,026**
Liabilities				
Contingent liability – Drilling Program (see Note 4 (c))	–	–	(29,936)	**(29,936)**
Total liabilities	**–**	**–**	**(29,936)**	**(29,936)**

December 31, 2013	Level 1	Level 2	Level 3	Fair Value Measurements
Assets				
Available-for-sale securities	374	–	–	**374**
Total assets	**374**	**–**	**–**	**374**
Liabilities				
Contingent liability – Drilling Program (see Note 4 (c))	–	–	(27,718)	**(27,718)**
Swap transaction	–	(12,466)	–	**(12,466)**
Option	–	(12,668)	–	**(12,668)**
Total liabilities	**–**	**(25,134)**	**(27,718)**	**(52,852)**

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.

On July 12, 2011, the Group entered into a non-deliverable cross currency 5 billion Russian rubles swap agreement with VTB Bank (Austria). The termination date of the swap was August 28, 2015. The underlying instrument for the swap transaction is a 5 billion Russian rubles bond bearing interest at 10% p.a. and maturing on August 25, 2020 (put option date – September 1, 2015) issued by Mechel OAO on September 7, 2010. Under the terms of the agreement, VTB Bank pays interest of 10% p.a. at 5 billion Russian rubles notional amount, the Group pays interest of 5.69% p.a. on $176,367 notional amount. Interest is paid on a semi-annual basis with the first payment on March 2, 2012. On the termination date, VTB Bank pays to the Group the notional amount of 5 billion Russian rubles, and the Group pays to VTB Bank the notional amount of $176,367. The business objective of this instrument is to decrease the effective interest rate for a 5 billion Russian rubles bond via a positive net cash inflow from interest payments under the swap instrument according to the Group's expectations about U.S. dollar and ruble exchange rate fluctuations.

The Group accounts for the above mentioned swap instrument at fair value as a derivative instrument not designated or qualifying as a hedging instrument under ASC 815. For the year ended December 31, 2013, a $1,791 gain related to the change in the fair value of this swap instrument was included in the net foreign exchange gain (loss) in the accompanying consolidated statement of operations and comprehensive income (loss) and consolidated statements of cash flows. As of December 31, 2013, the fair value of this swap instrument was recorded in Other long-term liabilities in the amount of $12,466.

The fair value of the Group's swap contract was valued based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes had been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

On December 29, 2014, the swap agreement was terminated. For the year ended December 31, 2014, a loss of $89,446 related to the change in the fair value and termination of this swap instrument was included in the net foreign exchange gain (loss) in the consolidated statements of operations and comprehensive income (loss). The Group entered into court proceedings with VTB Bank (Austria) in 2015 (Note 26 (d)).

In December 2014, Gazprom's bonds were purchased by the Group in the amount of $2,160. As of December 31, 2014, as a result of change in their fair value, a loss of $137 was included in other comprehensive income (loss) in the consolidated statement of operations and comprehensive income (loss). As of December 31, 2014, the bonds were recorded in Prepayments and other current assets.

In October 2012 and March 2013, SKCC entered into cross currency options with Sberbank. The options are contracted in respect of four facilities totaling to 20.9 billion Russian rubles (approximately $638,500 at exchange rate as of December 31, 2013), falling due on October 6, 2017. The ruble-denominated facilities bear floating interest at 10.5%-11.5% p.a. The options are designed to convert the ruble notional amount into U.S. dollars at a pre-determined strike exchange rate (6.5 billion Russian rubles – at the exchange rate of 31.04 Russian rubles per 1 U.S. dollar, 5.0 billion Russian rubles – at the exchange rate of 30.80 Russian rubles per 1 U.S. dollar, 1.5 billion Russian rubles – at the exchange rate of 31.00 Russian rubles per 1 U.S. dollar, 7.9 billion rubles – at the exchange rate of 30.64 rubles per 1 U.S. dollar) when the barrier exchange rate (indicated at Reuters) achieves 50.00 Russian rubles per 1 U.S. dollar. Simultaneously, the interest rate is modified into floating 10.0%-11.0% p.a. After the triggering event, all future payments are made in U.S. dollars. The business objective of this instrument was the decrease in interest rate on the ruble-denominated facilities based on the Group's expectations about U.S. dollar and ruble exchange rate fluctuations.

For the year ended December 31, 2013, a $20,682 gain related to the change in the fair value of this option was included in the net foreign exchange gain (loss) in the accompanying consolidated statement of operations and comprehensive income (loss) and consolidated statements of cash flows. As of December 31, 2013, the fair value of this option was recorded in Other long-term liabilities in the amount of $12,668.

The fair value of the Group's option contract was measured based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes have been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

On December 1, 2014, the exchange rate reached the point of 50.00 Russian rubles per 1 U.S. dollar and the facilities were converted into U.S. dollars with due payables of $677,980 as of December 31, 2014. For the year ended December 31, 2014, a $254,235 loss related to conversion was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). The Group accounted for the above mentioned option at fair value as a derivative instrument not designated or qualifying as a hedging instrument under ASC 815.

The Group is involved in litigations with Sberbank in connection with conversion of such option (Note 26 (d)).

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

The contingent liability measured at fair value is represented by the Drilling Program contingent liability, which was calculated using estimated tonnage of coal in-place determined by the independent appraiser. The present value of this liability was determined using an 8% discount rate, stated in the agreement for actual settlement of contingent obligation, which represents the estimate of the amount that would have been paid if the Group had settled the liability at the balance sheet date. The contingent liability was released on the date of transfer of the BCG companies' shares, February 12, 2015. As of December 31, 2014 the contingent liability of $29,936 is included in line Current liabilities of discontinued operations (Note 4 (c)).

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 for the years ended December 31, 2014, 2013 and 2012:

	Contingent liability
Balance at beginning of 2012	**(23,759)**
Loss resulting from remeasurement of contingent liability	(1,906)
Transfers in and out of Level 3	–
Balance at beginning of 2013	**(25,665)**
Loss resulting from remeasurement of contingent liability	(2,053)
Transfers in and out of Level 3	–
Balance at beginning of 2014	**(27,718)**
Loss resulting from remeasurement of contingent liability	(2,218)
Transfers in and out of Level 3	–
Balance at end of year	**(29,936)**

(b) Fair value of assets and liabilities not measured at fair value

As of December 31, 2014, the fair value of variable and fixed rate loans (based on future cash flows discounted at current long-term market rates available for corporations adjusted for discount applicable to the Group) was as follows:

As of December 31, 2014	Estimated fair value	Level 1	Level 3	Carrying value incl. interest accrued
Russian ruble-denominated debt	2,159,273	127,409	2,031,864	2,957,408
U.S. dollar-denominated debt	3,404,131	–	3,404,131	3,717,751
Euro-denominated debt	369,061	–	369,061	442,334
Total long-term debt	**5,932,465**	**127,409**	**5,805,056**	**7,117,493**

The fair value of cash and cash equivalents, short-term investments, accounts receivable and accounts payable, equipment financing contracts and other financial instruments not included in the tables above approximates carrying value.

The Group assessed the maximum amount of loss due to credit risk that would be incurred if the parties that make up a concentration of credit risk failed to perform according to the terms of contracts and consider the probable amount of such loss immaterial for the periods presented in these financial statements.

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

(c) Assets and liabilities at fair value on nonrecurring basis

The nonrecurring fair value measurements for the calculation of impairment charges were developed using significant unobservable inputs (Level 3). Assumptions used by management were similar to those that would be used by market participants performing valuations of these reporting units and are described in Note 24.

Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill performed by the Group during the year ended December 31, 2014, the impairment of long-lived assets of $120,237 (Note 24) for the year ended December 31, 2014 was recognized to reduce the carrying amount of goodwill and the impairment of long-lived assets of $1,440,021 (Note 4 (c)) for the year ended December 31, 2014 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell.

The nonrecurring fair value measurements for the calculation of discontinued operations (fair value less cost to sell) were developed based on the selling prices under the relevant sale and purchase agreements that approximate the fair value. The results are described in Note 4 (c).

16. 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 main part of these obligations is 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, 2014, 2013 and 2012:

	2014	2013	2012
Asset retirement obligation at beginning of year	**52,568**	**42,135**	**34,752**
Liabilities incurred in the current year	–	17,509	–
Liabilities disposed in the current year	–	(947)	–
Liabilities settled in the current year	(1,230)	(2,216)	(2,257)
Accretion expense (including related to discontinued operations of $997, $458 and $475 during 2014, 2013 and 2012)	5,960	4,982	4,317
Revision in estimated cash flow	19,668	(5,537)	3,239
Translation difference	(29,776)	(3,358)	2,084
Asset retirement obligation at end of year	**47,190**	**52,568**	**42,135**

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 SKCC, and Yakutugol during the year ended December 31, 2014, at SKCC, SUNP and Yakutugol during the year ended December 31, 2013, at SKCC and Yakutugol during the year ended December 31, 2012 as assessed by the Group with the help of independent environmental engineers.

17. 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.

Several entities contribute certain amounts to non-state pension fund (Mechel Fund), which, together with amounts earned from investing the contributions, are intended to provide pensions to members of pension plans. 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.

During 2010, the Group introduced a new corporate plan for the majority of the Russian entities except for Yakutugol. During 2011, the Group also introduced a new corporate plan for Yakutugol. As a result the Group ceased to bear any liabilities to provide either pension or lump sum upon retirement benefits, or both, to the employees who do not participate in the corporate pension plan. In addition, the Group terminated the provision of the guarantees concerning the amount of the pension provided via a non-state pension fund to those employees who were born after a certain year.

As of December 31, 2014, there were 56,508 active participants under the defined benefit pension plans and 40,574 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2013, the related figures were 59,199 and 33,913, respectively. The majority of employees at the Group's major subsidiaries belong to the trade unions.

Actuarial valuation of pension and other post employment and postretirement benefits was performed in March 2015, with the measurement date of December 31, 2014. 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 operations and comprehensive income (loss) ratably over employees' working service with the Group.

As of December 31, 2014 and 2013, net projected benefit obligation and other postretirement benefit obligations amounted to $78,878 and $123,103, respectively.

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

Projected benefit obligation

The movements in the projected benefit obligation ("PBO") were as follows during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Projected benefit obligation at beginning of year	**128,693**	**153,169**	**120,906**
Service cost	3,698	5,476	4,328
Interest cost	5,694	9,536	9,859
Obligations arising from acquisitions and other	451	510	13,883
Benefits paid	(4,978)	(12,667)	(16,535)
Benefits liabilities reclassified to Accrued expenses and other current liabilities	(1,338)	–	–
Actuarial (gain) loss	2,534	(10,958)	13,223
Plan amendments	(1,946)	–	3,290
Curtailment gain	(1,496)	(8,043)	(2,999)
Translation difference	(47,418)	(8,330)	7,214
Projected benefit obligation at end of year	**83,894**	**128,693**	**153,169**
Plan assets			
Fair value of plan assets at beginning of year	**5,590**	**5,411**	**–**
Employer contributions	145	278	–
Benefits paid	(409)	(1,046)	–
Expected return on plan assets	181	209	–
Actuarial gains on plan assets	163	535	–
Plan assets arising from acquisitions	–	–	5,411
Translation difference	(654)	203	–
Fair value of plan assets at the end of year	**5,016**	**5,590**	**5,411**
Funded status	**(78,878)**	**(123,103)**	**(147,758)**

Upon the acquisition of Cognor on September 25, 2012 (Note 4(a)), the Group recognized additional pension obligation in the amount of $8,472, including projected benefit obligation of $13,883 and plan asset of $5,411.

The curtailment gain of $8,043 was recognized in 2013 due to disposal of Mechel Targoviste S.A., Mechel Campia Turzii S.A., Ductil Steel, Laminorul S.A., TPP Rousse and redundancies at Mechel-Remservice, SUNP. The actuarial gain of $10,958 in 2013 was recognized as a result of changes in assumptions, including the increase in discount rates and retirement ages, and the decrease in inflation rate.

The curtailment gain of $2,999 was recognized in 2012 due to the redundancies at Romanian entities, the redundancies and the termination of provision of the financial support to future pensioners at SUNP. The actuarial loss of $13,223 in 2012 was recognized as a result of changes in assumptions, including the decrease in discount rates and the decrease in mortality rates.

Amounts recognized in the consolidated balance sheets were as follows as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Plan assets, net of current portion	–	–
Pension obligation, current portion	18,656	18,578
Pension obligation, net of current portion	60,222	104,525
Total net pension obligation	**78,878**	**123,103**

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

The components of net periodic benefit cost were as follows for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Service cost	3,698	5,476	4,328
Amortization of prior service cost	1,377	1,731	1,922
Interest cost	5,694	9,536	9,859
Amortization of actuarial gain	(5,973)	(3,334)	(4,301)
Curtailment gain	(1,914)	(9,093)	(1,691)
Expected returns on assets	(181)	(209)	–
Net periodic benefit cost	**2,701**	**4,107**	**10,117**

The PBO, accumulated benefit obligation, fair value of plan assets and funded status were as follows as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Projected benefit obligation	83,894	128,693
Accumulated benefit obligation	72,810	104,443
Fair value of plan assets	(5,016)	(5,590)
Funded status	**78,878**	**123,103**

Amounts recognized in accumulated other comprehensive income ("AOCI") were as follows as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Net gain	(17,494)	(40,286)
Prior service cost	1,868	7,251
Translation difference	2,292	147
Total amount recognised in AOCI	**(13,334)**	**(32,888)**

The change in the PBO recognized in OCI was as follows for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Additional (gain) loss arising during the year	2,371	(11,493)	13,223
Less re-classified (gain) loss amortization	(6,509)	(4,538)	(3,103)
Additional prior service cost (credit) from plan amendment	(1,946)	–	3,290
Less re-classified prior service cost amortization	1,495	1,886	2,032
Translation difference	14,115	2,303	(161)
Net amount recognised in other comprehensive income for the year	**19,554**	**(6,538)**	**17,423**

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

The key actuarial assumptions used to determine benefit obligations were as follows as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Discount rate		
Russian entities	11.50%	7.90%
German entities	1.60%	3.20%
Ukrainian entities	varying from 13.76% to 6.98%	10.00%
Austrian entities	2.50%	3.50%
Expected return on plan assets		
Austrian entities	6.70%	4.32%
Rate of compensation increase		
Russian entities	8.90%	6.58%
German entities	4.00%	4.00%
Ukrainian entities	10.60%	5.3%
Austrian entities	2.25%	3.50%

The key actuarial assumptions used to determine net benefit cost for the years ended December 31, 2014 and 2013:

	2014	2013
Discount rate		
Russian entities	for interest cost 7.9% for service cost 11.5%	7.00%
German entities	3.20%	3.00%
Ukrainian entities	for interest cost 10% for service cost varying from 13.76% to 6.98%	7.00%
Austrian entities	3.50%	3.75%
Expected return on plan assets		
Austrian entities	3.50%	3.75%
Rate of compensation increase		
Russian entities	8.90%	6.88%
German entities	4.00%	4.00%
Ukrainian entities	10.60%	6.88%
Austrian entities	2.50%	3.50%

The results of sensitivity analysis of PBO as of December 31, 2014 are presented below:

	Change in PBO as of December 31, 2014 % from the "Base Case" PBO
Discount rate of 1% p.a. lower than "base case"	3.62%
Salary growth of 1% p.a. higher than "base case"	2.90%
Staff turnover rate plus 3% p.p. for all ages	-5.94%

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

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2015:

	2015
Transition obligation (asset)	–
Net gain	(3,692)
Prior service cost	914
Total amounts expected to be recognized during 2015	**(2,778)**

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

	2015	2016	2017	2018	2019	2020-2024	Total
Pensions (including monthly financial support)	17,017	4,890	4,542	4,495	3,862	13,525	48,331
Other benefits	1,639	678	546	461	393	1,223	4,940
Total expected benefits to be paid	**18,656**	**5,568**	**5,088**	**4,956**	**4,255**	**14,748**	**53,271**

Plan assets

The asset allocation of the investment portfolio was as follows as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Debt instruments	2,518	2,882
Equity instruments	1,365	1,517
Property	156	212
Cash and cash equivalents	532	582
Other assets	445	397
Total plan assets	**5,016**	**5,590**

The investment strategy employed by the Group includes an overall goal to attain a maximum investment return with a strong focus on limiting the amount of risk taken. The strategy is to invest with a medium- to long-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules to avoid concentrations of investments.

The vast majority of plan assets are measured using quoted prices in active markets for identical assets (Level 1 assets).

The investment portfolio is primarily comprised of debt and equity instruments. Real estate and other alternative investments asset can be included when these have favorable return and risk characteristics.

Debt instruments include investment grade and high yield corporate and government bonds with fixed yield and mostly short- to medium maturities.

Equity instruments include selected investments in equity securities listed on active exchange market. The valuation of debt and equity securities is determined using a market approach, and is based on an unadjusted quoted prices.

The expected return on plan assets takes into account historical returns and the weighted average of estimated future long-term returns based on capital market assumptions for each asset category.

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

18. FINANCE LEASES

In 2009-2014, several subsidiaries of the Group entered into agreements with third parties for the lease of transport and production equipment. The leases were classified as finance (capital) leases in accordance with FASB ASC 840, "Leases" ("ASC 840"), as they contain a bargain purchase option and the title to the leased equipment transfers to the lessee at the end of the lease term.

As of December 31, 2014 and 2013, the net book value of the leased assets was as follows:

	December 31, 2014	December 31, 2013
Transport equipment and vehicles	366,465	592,371
Operating machinery and equipment	105,241	168,035
Construction in progress	9,057	540
Less: accumulated depreciation	(145,143)	(172,825)
Net value of property, plant and equipment, obtained under capital lease agreements	**335,620**	**588,121**

The carrying amount and maturities of capital lease liabilities as of December 31, 2014 were as follows:

	Total payable	Interest	Net payable
Payable in 2015	360,622	(89,642)	270,980
Payable in 2016	2,177	(193)	1,984
Payable in 2017	644	(60)	584
Payable in 2018	253	(8)	245
Total capital lease liabilities	**363,696**	**(89,903)**	**273,793**

The discount rate used for the calculation of the present value of minimum lease payments equals the implicit rate for the lessor and varies on different groups of equipment from 9.2% p.a. to 13.2% p.a. (U.S. dollar-denominated contracts), from 7.6% p.a. to 26.4% p.a. (euro-denominated contracts) and from 5.0% p.a. to 26.1% p.a. (ruble-denominated contracts). Interest expense charged to the accompanying Group's statements of operations and comprehensive income (loss) in 2014 and 2013 amounted to $52,388 and $62,714, respectively.

In 2009-2014, the Group signed several finance lease contracts under which all leased property was received during 2010-2014. The total amount of commitments under the signed lease contract as of December 31, 2014 is equal to $nil.

The Group's finance lease contracts contain a number of covenants and restrictions, which include, but are not limited to, compliance with payment schedule and certain cross-default provisions. As of December 31, 2014, the Group was not in compliance with all major Group's restrictive covenants. There was also a breach of restrictive covenants on overdue principal amount of $51,047 as of December 31, 2014. As a result, the long-term finance lease liability of $174,413 was reclassified to short-term finance lease liabilities due to covenant violations as of December 31, 2014. The fines on overdue amounts were recorded in the amount of $5,561 in Accrued expenses and other current liabilities in the consolidated balance sheet as of December 31, 2014. The respective expenses were recognized as interest expense in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2014. In 2015, the Group received notifications demanding for early repayment of lease obligations from one of the lessors.

19. EQUITY

(a) Capital stock

The capital stock of Mechel OAO consists of 497,969,086 authorized common shares with par value of 10 Russian rubles (approximately $0.0002), of which 416,270,745 common shares were outstanding as of December 31, 2014 and 2013.

(b) 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.

(c) 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 13% withholding tax for residents (9% for the periods prior to 2015) and 15% for non-residents, which could be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

Effective January 1, 2008, intercompany dividends may be subject to a withholding tax of 0% (if at the date of dividends declaration, the dividend-recipient Russian company held a controlling (over 50%) interest in the share capital of the dividend payer for a period over one year and the residence of the dividend distribution company is not included into the Ministry of Finance offshore list.

Approximately $2,727,554 and $6,104,529 of statutory undistributed earnings were available for dividends as of December 31, 2014 and 2013, respectively.

On June 20, 2014, one of the Group's subsidiaries declared a dividend of 1,670 thousand Russian rubles ($50) and Mechel declared a dividend of 4,163 thousand Russian rubles ($124) to the holders of preferred shares for 2013. The dividends declared for 2013 were partially paid to the shareholders in the amount of $26 as of December 31, 2014.

On June 20, 2013, one of the Group's subsidiaries declared a dividend of 285,105 thousand Russian rubles ($8,876) to its common shareholders and, on June 28, 2013, Mechel declared 4,163 thousand Russian rubles ($127) to the holders of preferred shares for 2012. In August 2013, the dividends on preferred shares declared for 2012 were paid in full amount.

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

(d) Earnings per share

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

	2014	2013	2012
Net loss from continuing operations	(2,885,954)	(1,704,870)	(1,278,660)
Less: Net income from continuing operations attributable to noncontrolling interests	31,054	(5,543)	(23,510)
Dividends paid on preferred stock	(124)	(127)	(79,056)
Net loss from continuing operations attributable to common shareholders of Mechel OAO	**(2,855,024)**	**(1,710,540)**	**(1,381,226)**
Total weighted average number of shares outstanding during the period	**416,270,745**	**416,270,745**	**416,270,745**
Loss per share from continuing operations (in U.S. dollars)	**(6.86)**	**(4.11)**	**(3.32)**

	2014	2013	2012
Net loss from discontinued operations	(1,473,780)	(1,218,097)	(386,225)
Less: Net loss from discontinued operations attributable to noncontrolling interests	(6,746)	496	23,827
Net loss from discontinued operations attributable to common shareholders of Mechel OAO	**(1,480,526)**	**(1,217,601)**	**(362,398)**
Total weighted average number of shares outstanding during the period	**416,270,745**	**416,270,745**	**416,270,745**
Loss per share effect of discontinued operations (in U.S. dollars)	**(3.56)**	**(2.92)**	**(0.87)**

Net loss attributable to common shareholders of Mechel OAO for the years ended December 31, 2014, 2013 and 2012 has been computed by adding the dividends on preferred shares for the years then ended, declared on June 30, 2014, June 28, 2013 and June 30, 2012 in the amount of $124, $127 and $79,056, respectively, to net loss attributable to shareholders of Mechel OAO.

The 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
2012			
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**
2013			
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**
2014			
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, 2014, 2013 and 2012.

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

(e) Acquisitions of noncontrolling interests

In November 2013, the Group purchased 1.31% of Mechel Mining OAO from the Controlling Shareholder for $57,985 cash consideration. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired of $54,952 was attributed to additional paid-in capital. The acquired shares were pledged under the credit agreement between the seller and Gazprombank as of the date of transaction but the pledge was released by the end of the year. The Group has 99.999995% of voting shares of Mechel Mining as of December 31, 2014.

During the period from August 2013 through November 2013, the Group purchased 4.40% of KMP from non-controlling shareholders for $29,158 cash consideration. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $8,720, was attributed to additional paid-in capital.

In March 2013, the Group purchased 0.21% of Tomusinsky Open Pit Mine ("TOPM") from noncontrolling shareholders for $33 paid in cash. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $619, was attributed to additional paid-in capital.

In March 2012, the Group purchased 0.03% of BMP from noncontrolling shareholders for $33 paid in cash. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $21, was attributed to additional paid-in capital.

In October 2012, the Group purchased 1.63% of Izhstal from noncontrolling shareholders for $595 paid in cash. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $160, was attributed to additional paid-in capital.

20. INCOME TAXES

Loss from continuing operations, before income tax and discontinued operations attributable to different jurisdictions was as follows:

	Years ended December 31,		
	2014	2013	2012
Russia	(2,343,202)	(630,392)	(669,215)
Switzerland	(6,198)	(592,724)	(24,699)
British Virgin Islands	(36,592)	38,129	16,808
Romania	–	(87,006)	(340,988)
Lithuania	855	1,048	(10,832)
Kazakhstan	–	(4,524)	(13,107)
USA	(1,477)	(3,045)	460
Other	(683,248)	(347,264)	5,514
Total	**(3,069,862)**	**(1,625,778)**	**(1,036,059)**

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

	Years ended December 31,		
	2014	**2013**	**2012**
Current income tax expense (benefit)			
Russia	137,014	106,297	238,156
Switzerland	305	275	(4,583)
Romania	–	–	(94)
Lithuania	–	–	–
Kazakhstan	–	–	–
USA	637	(526)	7
Other	33,054	2,796	8,239
	171,010	**108,842**	**241,725**
Deferred income tax expense (benefit)			
Russia	(346,913)	9,966	7,639
Switzerland	388	(2,187)	1,434
Romania	–	–	(14,450)
Lithuania	–	6	(116)
Kazakhstan	–	195	327
USA	(262)	–	118
Other	(8,131)	(37,730)	5,924
	(354,918)	**(29,750)**	**876**
Total income tax (benefit) expense	**(183,908)**	**79,092**	**242,601**

In January 2013, the Group created the consolidated group of taxpayers in accordance with part one of the Tax code of the Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ. The existence of the consolidated group of taxpayers is subject to compliance with several conditions stated in the Tax code of the Russian Federation. The Group believes that these conditions are satisfied as of December 31, 2014. As of January 1, 2013, the consolidated group of taxpayers consisted of 16 subsidiaries of the Group, together with Mechel OAO, which is the responsible taxpayer under the agreement. As of January 1, 2014, the number of subsidiaries included in the consolidated group of taxpayers increased to 20 participants.

For subsidiaries which are not included in the consolidated group of taxpayers, income taxes are calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Group in accordance with ASC 740.

Taxes represent the Group’s provision for profit tax. During 2012-2014, income tax was calculated at 20% of taxable profit in Russia, at 10.8% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan. The Group’s subsidiaries incorporated in Liechtenstein and British Virgin Islands are exempt from profit tax. In the U.S., the tax rates were as follows: 39.55% in 2013-2014, 40.0% in 2012. Amendments in the tax legislation of the United Kingdom resulted in the decrease in tax rate from 24% in 2010-2012 to 23% since April 1, 2013 and to 21% since April 1, 2014. The tax legislation of Ukraine was amended to decrease the statutory income tax rate to 21% from January 1, 2012, 19% from January 1, 2013 and 18% from January 1, 2014 and thereafter.

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

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

	Years ended December 31,		
	2014	**2013**	**2012**
Theoretical income tax (benefit) expense computed on income before taxes at Russian statutory rate (20%)	(613,972)	(325,156)	(207,212)
Effects of other jurisdictions and permanent differences:			
Non-deductible interest expenses	92,344	–	–
Other non-deductible expenses and non-taxable income, net	160,550	131,486	299,994
Social expenditures	2,768	4,618	3,888
Change in valuation allowance	21,574	195,971	125,056
Change in unrecognized tax benefits under ASC 740	(30,378)	61,230	17,598
Different tax rates in foreign jurisdictions	2,783	5,800	(268)
Fines and penalties related to taxes	12,605	631	5,988
Effect from disposal of subsidiaries	–	16,874	–
Unrecognized tax position of prior periods recognized in 2014	114,212	–	–
Other permanent differences	53,606	(12,362)	(2,443)
Income tax (benefit) expense, as reported	**(183,908)**	**79,092**	**242,601**

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.

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

	December 31, 2014	**December 31, 2013**
Deferred tax assets, current		
Inventory	2,631	8,161
Net operating loss carry-forwards	99,826	3,252
Bad debt allowance	14,772	10,749
Timing difference in cost recognition	969	25,677
Accrued liabilities	10,145	4,854
Vacation provision	1,217	2,269
Other	372	5,973
Total deferred tax asset, current	**129,932**	**60,935**
Valuation allowance for deferred tax assets, current	(4,693)	(4,444)
Total deferred tax asset net of valuation allowance, current	**125,239**	**56,491**
Deferred tax assets, non-current		
Net operating loss carry-forwards	721,004	736,880
Asset retirement obligation	2,012	3,352
Property, plant and equipment	23,847	29,112
Pension obligations	–	–
Borrowings – exercise of cross currency option	62,786	–
Other	10,300	1,388
Total deferred tax assets, non-current	**819,949**	**770,732**
Valuation allowance for deferred tax assets, non-current	(526,081)	(598,998)
Total deferred tax asset net of valuation allowance, non-current	**293,868**	**171,734**
Total deferred tax asset, net	**419,107**	**228,225**

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

	December 31, 2014	December 31, 2013
Deferred tax liabilities, current		
Timing difference in revenue recognition	1,228	2,146
Timing difference in cost recognition	10,444	4,995
Inventories	14,491	43,646
Bad debt allowance	4,971	6,621
Other	10,775	11,766
Total deferred tax liabilities, current	**41,909**	**69,174**
Deferred tax liabilities, non-current		
Property, plant and equipment	255,870	377,376
Mineral licenses	142,795	261,060
Timing difference in cost recognition	209	3,057
Other	2,015	31,416
Total deferred tax liabilities, non-current	**400,889**	**672,909**
Total deferred tax liability	**442,798**	**742,083**

A deferred tax liability of approximately $2,898 and $2,868 as of December 31, 2014 and, 2013, 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 $19,401 and $51,369 as of December 31, 2014 and 2013, 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.

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 carry forwards which are considered to be realized in the future, are mostly related to the Russian subsidiaries. For the Russian income tax purposes, certain subsidiaries of the Group have accumulated tax losses incurred primarily in 2009-2014, which may be carried forward for use against their future income within 10 years in the full amounts.

As of December 31, 2014 and 2013, deferred tax assets on net operating loss carry forwards for statutory income tax purposes amounted to $820,830 and $740,132, respectively. As management concluded that the utilization of a substantial portion of such losses is not probable, the valuation allowances in the amount of $503,250 and $579,128 were recorded against net operating loss carry forwards by the Group as of December 31, 2014 and 2013, respectively.

Unrecognized tax benefits

Unrecognized income tax benefits of $31,444, including interest and penalties of $2,656, as of December 31, 2014 and $78,332, including interest and penalties of $13,789, as of December 31, 2013 were recorded by the Group in the accompanying consolidated balance sheets.

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

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

	2014	2013
Unrecognized income tax benefits at the beginning of year	**64,543**	**16,703**
Increases as a result of tax positions taken during a prior period	3,478	52,567
Decreases as a result of tax positions taken during the prior period	–	–
Decreases as a result of settlements with tax authorities	(6,346)	–
Decreases as a result of a lapse of the applicable statute of limitations	(18,536)	–
Decreases as a result of tax positions taken during the current period	–	(1,806)
Translation difference	(14,351)	(2,921)
Unrecognized income tax benefits at the end of year	**28,788**	**64,543**

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 $nil and $10,468 for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the tax years ended December 31, 2012-2014 remained subject to examination by Russian tax authorities. As of December 31, 2014, the tax years ended December 31, 2009-2014 remained subject to examination by Swiss, Liechtenstein, Belgium and the U.S. tax authorities. In some companies certain periods were reviewed by the tax authorities and based on the history the Group believes that probability of the repetitive review is less than 10%.

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.

On January 9, 2014, the Group failed to sustain its position in the court with respect to the income tax claims in the amount of 3,977 million rubles ($114,212 at exchange rate as of the transaction date), including penalties and fines. The Group does not intend to appeal the decision. The Group recognized this income tax as income tax expense included in the line Unrecognized tax position of prior periods recognized in the income tax reconciliation in 2014.

21. TAXES OTHER THAN INCOME TAX

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

	Years ended December 31,		
	2014	2013	2012
Property and land tax	125,666	113,254	95,402
VAT	19,439	(1,785)	1,949
Fines and penalties related to taxes	21,346	3,227	(600)
Other taxes and penalties	5,996	10,876	32,133
Total taxes other than income tax	**172,447**	**125,572**	**128,884**

Property and land tax includes accruals for land tax, which amounted to $13,615, $19,238 and $30,649 for the years ended December 31, 2014, 2013 and 2012, respectively. This tax is levied on the land beneath the Group's production subsidiaries that is occupied based on the right of ownership.

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

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 $43,009, $49,093 and $36,457 for the years ended December 31, 2014, 2013 and 2012, respectively. The table below presents future land rental payments for the next five years under non-cancelable operating lease agreements based on the current rental rates:

Year of payment	Operating lease payments
2015	42,220
2016	40,511
2017	40,010
2018	39,508
2019	39,298

Included in other taxes and penalties related to taxes are $3,837, $4,831 and $2,785 relating to fees for the environmental restoration and air contaminant emission for the years ended December 31, 2014, 2013 and 2012, respectively.

Other taxes and penalties for the year ended December 31, 2012 includes income related to recalculation of mineral extraction tax for previous financial years of $5,137 and expense relating to mineral extraction tax risk in respect of previous financial years of $27,097.

22. GENERAL, ADMINISTRATIVE AND OTHER OPERATING EXPENSES

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

	Years ended December 31,		
	2014	2013	2012
Personnel and social contributions	224,263	272,441	301,623
Office expenses	41,389	45,536	43,787
Depreciation	21,599	40,570	22,178
Fines, penalties	21,538	17,615	9,977
Audit and consulting services	14,436	19,769	24,975
Consumables	13,731	23,068	16,974
Social expenses	13,687	15,356	20,997
Banking charges and services	6,860	17,083	17,098
Rent	6,834	11,515	10,301
Business trips	4,016	5,982	7,593
Disposals of property, plant and equipment	1,709	4,907	(4,663)
Insurance	2,466	2,991	5,400
Mitigation of accidents consequences	1,199	5,504	4,388
Other	18,879	27,768	26,193
Total general, administrative and other operating expenses, net	**392,606**	**510,105**	**506,821**

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

23. OTHER INCOME (EXPENSES), NET

Other income (expenses), net is comprised of the following:

	Years ended December 31,		
	2014	2013	2012
Loss on securities repurchase agreement	(23,051)	–	–
Gain on sale of investments in equity securities	14,050	2,466	2,166
Gain (loss) on currency operations	2,980	132	(2,626)
Gain on accounts payable with expired legal term	930	11,324	4,043
Gain on forgiveness of fines and penalties	28	2,550	2,777
Dividends received	1	285	25,981
Loss on disposal of subsidiaries	–	(76,814)	–
Other (expenses) income, net	(4,551)	(14,514)	762
Total other (expenses) income, net	**(9,613)**	**(74,571)**	**33,103**

During 2014, the Group recognized a loss of $23,051 related to the failure of a counterparty to a securities repurchase agreement to return certain securities to the Group.

Gain on sale of investments occurred as a result of disposal of investments in equity securities to third parties in 2014.

During the period from February 15, 2013 through February 18, 2013, the Group disposed of 86.6% interest in Mechel Targoviste S.A., 86.6% interest in Mechel Campia Turzii S.A., 100% interest in Ductil Steel and 90.9% interest in Laminorul S.A. for a nominal consideration of 230 Romanian lei ($0.1 as of the date of agreement) paid in cash. The disposal is consistent with the Group's strategy aimed at development of its core business. All the disposed companies related to the Steel segment. There were no significant write-downs of the carrying value of net assets to the fair value less cost to sell. The fair value of Group's net receivables from the disposed companies as of the disposal date is $nil. Net loss on disposal of Romanian assets amounted to $79,997.

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.

During the years ended December 31, 2014, 2013 and 2012, the Group received dividends from cost investments of $1, $285 and $25,981, respectively.

24. IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

As of December 31, 2014, the Group performed an impairment analysis of goodwill at all reporting units where events occur that could potentially lead to the impairment. The Group considers the relationship between market capitalization and its book value, among other factors, when reviewing for indicators of impairment. In addition, the Group's long-lived assets were tested for recoverability at those reporting units, where events or changes in circumstances indicate that their carrying amounts may not be recoverable. Cash flow forecasts used in the test were based on the assumptions as of December 31, 2014.

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

The forecasted period for non-mining subsidiaries of the Group was assumed to be five years to reach stabilized cash flows, and the value beyond the forecasted period was based on the terminal growth rate of 2.5%. 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 2015-2019 that were used in cash flow projections were as follows:

Region	2015	2016	2017	2018	2019
Russia	12%	6%	5%	5%	5%
European countries	3%	3%	3%	4%	3%

Discount rates used in the impairment test for goodwill were estimated in nominal terms on the weighted average cost of capital basis. These rates, estimated for each year for the forecasted period, are as follows:

	2015	2016	2017	2018	2019
Discount rate	14.63%	14.22%	13.88%	13.15%	11.38%

Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill performed by the Group during the year ended December 31, 2014, no goodwill impairment for the year ended December 31, 2014 was recognized.

As of December 31, 2014, the number of reporting units where the Group tested long-lived assets for recoverability was 21. The Group tested long-lived assets for impairment at each reporting unit where the potential amount of such impairment could be material.

According to the results of the impairment analysis of long-lived assets, an impairment loss of $120,237 for the year ended December 31, 2014 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2014
Izhstal	Steel	101,097
DEMP	Steel	18,020
Mechel Service Romania S.R.L.	Steel	1,120
Total		**120,237**

The remaining carrying value of the long-lived assets of Mechel Service Romania S.R.L. after recording of long-lived assets impairment as of December 31, 2014 was $4,251. The remaining carrying value of the long-lived assets of Izhstal and DEMP was $nil.

According to the results of the impairment analysis of goodwill as of December 31, 2014, the following reporting units with goodwill allocated for testing purposes have the estimated fair values that are not substantially in excess of their carrying values and goodwill for such reporting units, if impaired, could materially impact the Group's results:

Reporting unit	Segment	The excess of fair value over carrying value	Goodwill allocated to the reporting unit
KPSC	Power	72%	18,234
Yakutugol	Mining	54%	237,892

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

In order to determine a reporting unit which had a fair value that was not substantially in excess of its carrying value the Group compared the carrying value of each reporting unit to its fair value based on the discounted cash flows expected to be generated by this reporting unit. As of December 31, 2014, two Group's reporting unit KPSC and Yakutugol had 72% and 54% excess of fair value over its carrying value, respectively, while others had the excess of 106% and more.

The material assumptions that drive the estimated fair values of KPSC and Yakutugol are represented by sales volumes, coal and power and electricity prices, discount rates. Some of these assumptions materially deviate from the Group's historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia, where KPSC and Yakutugol are located. All these material assumptions are based on the Group's projections and are subject to risk and uncertainty.

Based on the sensitivity analysis carried out as of December 31, 2014, the following minimum changes in key assumptions used in the goodwill impairment test would trigger the impairment of goodwill at KPSC and Yakutugol (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):

- 0.8% and 18.1% decrease in future planned revenues, respectively;
- 6.6% and 7.7% point increase in discount rates for each year within the forecasted period, respectively;
- 11.4% points decrease in cash flows growth rate after the forecasted period at KPSC.

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

According to the results of the impairment analysis of goodwill, an impairment loss of $38,310 for the year ended December 31, 2013 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2013
KPSC	Power	28,144
Ekos-plus.	Mining	4,069
WNL Staal	Steel	2,263
Ramateks	Steel	2,248
Mechel Transport	Mining	1,586
Total		**38,310**

The remaining carrying value of the goodwill for KPSC where the Group recorded goodwill impairment as of December 31, 2013 was $31,352. The remaining carrying value of goodwill for Ekos-plus, WNL Staal, Ramateks and Mechel Transport was $nil.

According to the results of the impairment analysis of long-lived assets, an impairment loss of $177,417 for the year ended December 31, 2013 was recognized for DEMP. The remaining carrying value of the long-lived assets of DEMP after recording of long-lived assets impairment as of December 31, 2013 was $35,661.

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

According to the results of the impairment analysis of goodwill as of December 31, 2013, the following reporting units with goodwill allocated for testing purposes had the estimated fair values that are not substantially in excess of their carrying values and goodwill for such reporting units, if impaired, could materially impact the Group's results:

Reporting unit	Segment	The excess of fair value over carrying value	Goodwill allocated to the reporting unit
Yakutugol	Mining	17%	408,915
BFP	Ferroalloy	29%	89,521
Port Posiet	Mining	17%	23,109

The material assumptions that drive the estimated fair values of Yakutugol, BFP and Port Posiet are represented by projected prices, sales volumes, discount rates. Some of these assumptions materially deviate from the Group's historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia, where Yakutugol, BFP and Port Posiet are located. All these material assumptions are based on the Group's projections and are subject to risk and uncertainty Changes in these material assumptions could result in lower than expected cash flows that may trigger the impairment of goodwill and long-lived assets.

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

According to the results of the impairment analysis of goodwill, an impairment loss of $361,969 for the year ended December 31, 2012 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2012
DEMP	Steel	205,522
Ductil Steel S.A.	Steel	92,398
Cognor	Steel	62,118
Nemunas	Steel	1,931
Total		**361,969**

The remaining carrying value of goodwill of these reporting units was $nil.

According to the results of the impairment analysis of long-lived assets, an impairment loss of $245,908 for the year ended December 31, 2012 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2012
Ductil Steel S.A.	Steel	115,181
Mechel Targoviste S.A.	Steel	48,806
Kazakhstansky Nickel Mining Company	Steel	23,864
Laminorul S.A..	Steel	29,933
Mechel Campia Turzii S.A	Steel	19,727
Nemunas	Steel	8,397
Total		**245,908**

The remaining carrying value of the long-lived assets of these reporting units was $nil.

25. SEGMENT INFORMATION

Effective April 1, 2014, in connection with the disposal of the ferroalloy entities, the Group reorganized its reportable segments as a result of a change in managing and evaluating the business. Previously, the Group had four reportable segments: Steel, Mining, Ferroalloy and Power. In 2014, the Group realigned the structure of segments, and, therefore, decreased the number of reportable segments to three: Steel, Mining and Power. These segments are combinations of subsidiaries and have separate management teams and offer different products and services. The above three segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and by which they are managed. All historical segment information has been revised to conform to the new presentation, with no resulting impact on the consolidated results of operations.

The Group's management evaluates performance of the segments based on segment revenues, gross margin and operating income (loss).

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

Segment information for 2014, 2013 and 2012 is as follows:

	2014					2013					2012				
	Mining	**Steel**	**Power**	**Elimina-tions*******	**Total**	**Mining**	**Steel**	**Power**	**Elimina-tions*******	**Total**	**Mining**	**Steel**	**Power**	**Elimina-tions*******	**Total**
Revenues from external customers	2,087,047	3,643,797	674,923		6,405,767	2,619,262	5,132,100	754,569		8,505,931	3,143,660	6,852,614	757,239		10,753,513
Intersegment revenues	552,844	213,405	356,998		1,123,247	525,201	239,842	435,637		1,200,680	627,836	261,724	428,537		1,318,097
Gross margin	1,293,078	800,180	268,244	12,608	2,374,110	1,516,841	840,504	305,783	(2,949)	2,660,179	1,905,261	1,059,192	305,943	47,580	3,317,976
Gross margin*, %	49.0%	20.7%	26.0%		37.1%	48.2%	15.6%	25.7%		31.3%	50.5%	14.9%	25.8%		30.9%
Depreciation, depletion and amortization	228,628	133,552	8,364		370,544	260,233	155,539	9,510		425,282	236,023	175,175	10,662		421,860
Loss on write-off of property, plant and equipment	8,560	5,975	2,860		17,395	16,358	896	–		17,254	6,820	4,054	5		10,879
Impairment of goodwill and long-lived assets	–	(120,237)	–		(120,237)	(5,658)	(181,925)	(28,144)		(215,727)	–	(607,877)	–		(607,877)
Provision for amounts due from related parties	(3,093)	(32,999)	(5,333)		(41,425)	(1,566)	(699,829)	(12,786)		(714,181)	(22,668)	(896,445)	–		(919,113)
Operating income (loss)	63,682	42,120	8,018	12,608	126,428	211,895	(853,059)	(12,644)	(2,949)	(656,757)	726,565	(1,403,055)	31,314	47,580	(597,596)
Income (loss) from equity investees	450	(174)	–		276	3,729	(140)	–		3,589	475	–	–		475
Interest income	1,629	731	38		2,398	2,701	4,565	64		7,330	50,282	19,859	37		70,178
Intersegment interest income	18,304	9,309	1,204		28,817	44,566	5,232	–		49,798	47,875	225	–		48,100
Interest expense**	(383,500)	(385,071)	(24,657)		(793,228)	(378,959)	(335,689)	(25,953)		(740,601)	(275,774)	(355,403)	(18,583)		(649,760)
Intersegment interest expense	(4,754)	(17,658)	(6,405)		(28,817)	(1,165)	(36,850)	(11,783)		(49,798)	(190)	(42,121)	(5,789)		(48,100)
(Loss) gain from discontinued operations, net of income tax	(1,480,349)	21,635	(15,066)		(1,473,780)	(35,777)	(1,158,228)	(24,092)		(1,218,097)	(33,548)	(191,639)	(161,038)		(386,225)
Segment assets***	4,359,291	2,140,093	214,106		6,713,490	10,000,696	3,461,491	372,323		13,834,510	9,680,652	7,530,814	483,837		17,695,303
Assets of discontinued operations****	151,602	–	–		151,602	2,181,532	–	–		2,181,532	2,258,421	1,713,449	59,223		4,031,093
Investments in equity investees****	4,866	–	–		4,866	7,388	216	–		7,604	7,475	378	–		7,853
Goodwill****	255,242	61,708	86,257		403,207	438,640	100,813	148,310		687,763	478,636	112,930	191,249		782,815
Capital expenditures	(354,066)	(84,254)	(5,348)		(443,668)	(330,983)	(216,227)	(5,216)		(552,426)	(599,343)	(340,955)	(9,744)		(950,042)
Income tax benefit (expense)	166,491	14,158	3,259		183,908	(85,208)	17,024	(10,908)		(79,092)	(208,602)	(31,423)	(2,576)		(242,601)

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

** *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.*

*** *Net of effects of intersegment eliminations.*

**** *Included in total segment assets.*

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

The amount of electricity transmission costs, included in the selling and distribution expenses of power segment, for 2014, 2013 and 2012 is $ 198,837, $221,247 and, $221,511 , 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.

	2014	2013	2012
Domestic			
Russia	3,725,567	4,795,324	5,567,656
Other	508,121	874,226	1,254,960
Total	**4,233,688**	**5,669,550**	**6,822,616**
Export	2,172,079	2,836,381	3,930,897
Total revenue, net	**6,405,767**	**8,505,931**	**10,753,513**

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:

	2014	2013	2012
Russia	3,727,782	4,797,012	5,572,864
Europe	889,465	1,234,728	1,656,697
Asia	1,071,766	1,453,750	1,596,025
CIS	566,514	647,833	996,832
Middle East	96,059	265,727	667,059
USA	11,738	9,219	62,780
Other regions	42,443	97,662	201,256
Total	**6,405,767**	**8,505,931**	**10,753,513**

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, 2014 and 2013 were as follows:

	2014	2013
Switzerland/Liechtenstein	134	186
Lithuania	9	6
Romania	4,261	10,456
Bulgaria	20	57
Germany	27,518	38,638
USA	–	3,202
CIS	390	36,138
Turkey	167	4,221
Czech Republic	4,285	5,739
Austria	12,503	25,373
Other	1,310	4,187

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.

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

The following table presents the breakdown the Group's revenues from external customers by major products:

	December 31, 2014	December 31, 2013	December 31, 2012
Mining segment			
Coal and middlings	1,629,180	1,866,536	2,189,901
Coke and chemical products	287,639	283,199	440,621
Iron ore concentrate	109,370	411,903	444,672
Other	60,858	57,624	68,466
Total	**2,087,047**	**2,619,262**	**3,143,660**
Power segment			
Electricity	619,864	673,053	671,283
Other	55,059	81,516	85,956
Total	**674,923**	**754,569**	**757,239**
Steel segment			
Long steel products	1,879,842	2,446,989	2,860,711
Hardware	592,734	760,085	889,041
Flat steel products	383,462	524,230	636,128
Forgings and stampings	313,772	406,440	442,585
Steel pipes	89,860	182,432	261,040
Semi-finished steel products	78,373	443,926	1,175,392
Ferrosilicon	71,228	77,039	65,591
Other	234,526	290,959	522,126
Total	**3,643,797**	**5,132,100**	**6,852,614**
Total revenue	**6,405,767**	**8,505,931**	**10,753,513**

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, 2014, the total Group's contractual commitments to acquire property, plant and equipment amounted to $474,826.

Included in the commitments related to acquisition of property, plant and equipment are amounts arising from various purchase agreements in respect of railway construction for the Elga project. The total amount of remaining commitments under the construction contracts as of December 31, 2014 is equal to $378,922.

Contingencies

(a) Guarantees

As of December 31, 2014, the Group guaranteed the fulfillment of obligations to third parties for the total amount of $2,105. These guarantees are given by the Group under promissory notes, which were transferred by endorsement.

(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. Management does not believe that any pending environmental claims or proceedings will have a material adverse effect on its financial position and results of operations.

The Group estimated the total amount of capital investments to address environmental concerns at its various subsidiaries at $23,654 as of December 31, 2014. 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) 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.

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds 2 billion Russian rubles in 2013 and 1 billion Russian rubles since 2014. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with FASB ASC 450, “Contingencies” (“ASC 450”), the Group accrued $11,367 and $16,755 of other tax claims that management believes are probable, as of December 31, 2014 and 2013, respectively. In addition, income tax accrual was made under ASC 740 (Note 20).

As of December 31, 2014, the Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be materially misstated or misleading.

Possible liabilities, which were identified by management as those that can be subject to different interpretations of the tax law and regulations are not accrued in the consolidated financial statements. The amount of such liabilities was $35,726.

(d) 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. 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.

As of the date when the financial statements were issued, the Group was involved into the following litigations:

- The Group filed a claim against Sberbank in connection with conversion of debt from Russian rubles into U.S. dollars under cross currency option agreement. The Group’s liabilities arising from conversion were recorded in the consolidated financial statements as of December 31, 2014 as described in Note 15;
- VTB Bank and VTB Capital claimed for $101,912 plus interest pursuant to the obligations of the Group under cross currency swap agreement with VTB Bank (Austria). The Group is rejecting the VTB Bank’s claims including inter alia the validity of earlier termination of the swap agreement. The Group’s liabilities arising from cross currency swap were recorded in the consolidated financial statements as of December 31, 2014 as described in Note 15;

- On March 31, 2015, the Group received a notice about seizure of 100% shares of Mechel Service Global B.V. in favor of VTB. The shares are seized according to the judgment of the Hague court as an interim measure in the claim of VTB to the Group in LMAC and are likely to be foreclosen on the outstanding loan that was recognized upon termination of swap agreement with VTB;
- On April 13, 2015, the Group filed two lawsuits against VTB Bank with the Moscow Arbitrazh Court to contest the SKCC's and Yakutugol's loans conversion into U.S. dollars. The Group's liabilities arising from conversion were recorded in the consolidated financial statements as of December 31, 2014 as described in Note 15.

(e) 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.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. In December 2014, the Russian ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17% p.a. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

27. SUBSEQUENT EVENTS

The Group evaluated subsequent events for these consolidated financial statements through the date when the financial statements were issued, April 28, 2015.

Disposal of subsidiaries

On February 18, 2015, the Group has closed the sale of the BCG Companies (Note 4(c)).

Debt restructuring

In March 2015, Yakutugol signed amendments to the loan agreements with Raiffeisenbank for the restructuring of the existing overdue credit facilities in the amount of $29,091 which were converted into rubles (1.7 billion Russian rubles) on the date of the agreement. The restructured facility bears interest 1month MosPrime plus 3.4% p.a. According to the amendments, the Group should repay the credit facility by February 2016. The Group paid a penalty fee for the overdue of payments on principal amount and interest on the credit facilities in the amount of $1,245 at the date of the amendments.

In March 2015, HBL entered into an amended agreement with VTB Bank for the total amount of 30 million euro ($31,572 at exchange rate as of the date of the agreement) on refinancing of the existing short-term credit facility. According to the amendments, the Group should repay the revolving credit line by December 2015. The interest rate remained unchanged. The parties agreed to extent the pledge under the amended loan agreement.