

Mechel OAO
Form 20-F
June 19, 2008

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[TABLE OF CONTENTS](#)
[CONTENTS](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 20-F

- o **Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**
or
- ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007**
or
- o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
or
- o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission file number 333-119497

MECHEL OAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125993, Russian Federation

(Address of principal executive offices)

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

Title of Each Class

Name of Each Exchange on Which Registered

**AMERICAN DEPOSITARY SHARES, EACH ADS
REPRESENTING THREE COMMON SHARES**

NEW YORK STOCK EXCHANGE

**COMMON SHARES, PAR VALUE
10 RUSSIAN RUBLES PER SHARE**

NEW YORK STOCK EXCHANGE⁽¹⁾

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

NONE

(Title of Class)

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

NONE

(Title of Class)

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

34,515,823 ADSs
14,046,609 GDSs
416,270,745 common shares

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

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

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated Filer Non-accelerated filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other
If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

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

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

TABLE OF CONTENTS

<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	ii
<u>Item 1.</u> Identity of Directors, Senior Management and Advisers	1
<u>Item 2.</u> Offer Statistics and Expected Timetable	1
<u>Item 3.</u> Key Information	1
<u>Item 4.</u> Information on the Company	36
<u>Item 5.</u> Operating and Financial Review and Prospects	109
<u>Item 6.</u> Directors, Senior Management and Employees	160
<u>Item 7.</u> Major Shareholders and Related Party Transactions	171
<u>Item 8.</u> Financial Information	171
<u>Item 9.</u> The Offer and Listing	173
<u>Item 10.</u> Additional Information	174
<u>Item 11.</u> Quantitative and Qualitative Disclosures About Market Risk	198
<u>Item 12.</u> Description of Securities Other than Equity Securities	204
<u>Item 13.</u> Defaults, Dividend Arrearages and Delinquencies	205
<u>Item 14.</u> Material Modifications to the Rights of Security Holders and Use of Proceeds	205
<u>Item 15.</u> Controls and Procedures	205
<u>Item 16A.</u> Audit Committee Financial Expert	212
<u>Item 16B.</u> Code of Ethics	212
<u>Item 16C.</u> Principal Accountant Fees and Services	212
<u>Item 16D.</u> Exemptions from the Listing Standards for Audit Committees	213
<u>Item 16E.</u> Purchases of Equity Securities by the Issuer and Affiliated Purchasers	213
<u>Item 17.</u> Financial Statements	214
<u>Item 18.</u> Financial Statements	214
<u>Item 19.</u> Exhibits	214
<u>SIGNATURES</u>	215

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

Our business consists of three segments: mining, steel and power. References in this document to segment revenues are to revenues of the segment excluding intersegment sales, unless otherwise noted.

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

In this document, references to "U.S. dollars," "\$" or "cents" are to the currency of the United States, references to "rubles" or "RUR" are to the currency of the Russian Federation and references to "euro" or "€" are to the currency of the member states of the European Union (the "E.U.") that participate in the European Monetary Union.

The term "tonne" as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds.

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

"CIS" means the Commonwealth of Independent States, its member states being Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

strategies, outlook and growth prospects;

future plans and potential for future growth;

liquidity, capital resources and capital expenditures;

growth in demand for our products;

economic outlook and industry trends;

developments of our markets;

the impact of regulatory initiatives; and

the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of profitability, growth, cost and synergies expected to result from our recent acquisitions, our ability to integrate successfully the power segment of our business, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the condition of the Russian economy, political stability in Russia, volatility in stock markets or in the price of our shares, American depositary shares ("ADSs") or global depositary shares ("GDSs") (collectively, our "Shares"), financial risk management, the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports to be filed by us with the Securities and Exchange Commission (the "SEC").

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The financial data set forth below as of December 31, 2007, 2006, 2005, 2004 and 2003, and for the years then ended, have been derived from our consolidated financial statements. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").⁽¹⁾

Our results of operations for the periods presented are significantly affected by acquisitions. Results of operations of these acquired businesses are included in our consolidated financial statements for the periods after their respective dates of acquisition. See note 1(a) to our consolidated financial statements in "Item 18. Financial Statements." The financial data below should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and related notes included under "Item 18. Financial Statements" and "Item 5. Operating and Financial Review and Prospects."

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Year ended December 31,

	2007	2006	2005	2004	2003
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(in thousands of U.S. dollars, except per share data)

Consolidated income statement data:

Revenue, net	6,683,842	4,397,811	3,804,995	3,635,955	2,028,051
Cost of goods sold	(4,166,864)	(2,860,224)	(2,469,134)	(2,225,088)	(1,422,987)
Gross profit	2,516,978	1,537,587	1,335,861	1,410,867	605,064
Selling, distribution and operating expenses	(1,119,385)	(811,889)	(820,133)	(660,060)	(407,383)
Operating income	1,397,593	725,698	515,728	750,807	197,681
Other income and expense, net	(12,146)	139,135	10,131	794,288	(21,555)
Income before tax, minority interest, discounted operations, extraordinary gain and changes in accounting principle	1,385,447	864,833	525,859	1,545,095	176,126
Income tax expense	(356,320)	(230,599)	(136,643)	(175,776)	(47,759)
Minority interest in loss (income) of subsidiaries	(116,234)	(31,528)	(6,879)	(11,673)	18,979
Income from continuing operations	912,893	602,706	382,337	1,357,646	147,346
Income (loss) from discontinued operations, net of tax	158	543	(1,157)	(15,211)	(5,790)
Extraordinary gain, net of tax				271	5,740
Changes in accounting principle, net of tax					(3,788)
Net income	913,051	603,249	381,180	1,342,706	143,508
Currency translation adjustment	136,673	148,920	(53,822)	49,116	46,921
Change in pension benefit obligation	(14,365)				
Adjustment of available-for-sale securities	(5,059)	11,203	2,181	(2,350)	
Additional minimum pension liability		(4,669)			
Comprehensive income	1,030,300	758,703	329,539	1,389,472	190,429
Earnings per share from continuing operations	2.19	1.48	0.95	3.63	0.39
Loss per share effect of discontinued operations				(0.04)	(0.01)
Earnings per share effect of extraordinary gain					0.02
Earnings per share effect of changes in accounting principle					(0.01)
Net income per share	2.19	1.48	0.95	3.59	0.39
Cash dividends per share	0.76	0.46	0.48	0.01	0.07
Weighted average number shares outstanding	416,270,745	408,979,356	403,118,680	373,971,312	366,178,815
Steel segment income statement data:					
Revenue, net ⁽²⁾	4,443,200	3,083,652	2,767,028	2,832,189	1,656,358
Cost of goods sold ⁽²⁾	(3,387,007)	(2,224,366)	(2,158,499)	(2,065,480)	(1,230,314)
Gross profit	1,056,193	859,286	608,529	766,709	426,044
Selling, distribution and operating expenses	(498,019)	(452,820)	(502,248)	(399,955)	(291,814)
Operating income	558,174	406,466	106,281	366,754	134,230
Mining segment income statement data:					
Revenue, net ⁽²⁾	2,556,995	1,682,523	1,427,172	1,198,705	596,904
Cost of goods sold ⁽²⁾	(1,241,665)	(1,008,806)	(715,875)	(556,878)	(419,619)
Gross profit	1,315,330	673,717	711,297	641,827	177,285
Selling, distribution and operating expenses	(428,632)	(354,669)	(315,713)	(259,409)	(115,327)

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Year ended December 31,

Operating income	886,698	319,048	395,584	382,418	61,959
Power segment income statement data:					
Revenue, net ⁽²⁾	598,515	123,322	24,532	15,907	13,533
Cost of goods sold ⁽²⁾	(393,154)	(110,273)	(20,242)	(13,576)	(11,798)
Gross profit	205,361	13,049	4,290	2,331	1,735
Selling, distribution and operating expenses	(192,734)	(4,400)	(2,172)	(694)	(243)
Operating income	12,627	8,649	2,118	1,637	1,491
Consolidated balance sheet data (at period end):					
Total assets	9,227,643	4,457,404	3,600,083	3,678,269	1,834,509
Shareholders' equity	3,504,933	2,864,963	2,210,474	2,057,629	448,826
Long-term debt, net of current portion	2,321,922	322,604	45,615	216,113	122,311
Consolidated cash flows data:					
Net cash provided by operating activities	904,969	554,923	620,875	296,137	119,858
Net cash provided by (used in) investing activities	(3,410,466)	(552,538)	(994,707)	455,716	(210,317)
Net cash provided by (used in) financing activities	2,549,881	(162,782)	(308,870)	252,269	103,079
Non-U.S. GAAP measures⁽³⁾:					
Consolidated EBITDA ⁽⁴⁾	1,658,661	1,068,258	726,252	1,707,711	341,472
Steel segment EBITDA ⁽⁴⁾	733,523	663,244	262,363	1,249,643	245,820
Mining segment EBITDA	995,660	404,666	459,166	455,927	93,612
Power segment EBITDA	26,761	9,190	3,211	2,131	2,040

- (1) The value of property, plant and equipment pertaining to non-controlling shareholders in the accounting for minority interests resulting from acquisitions of various subsidiaries has been recorded at appraised values rather than at historical cost as required by U.S. GAAP.

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

(3) EBITDA represents net income before interest expense, income taxes and depreciation, depletion and amortization. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also present EBITDA by segment because our overall performance is best explained with reference to results of each segment.

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

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

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

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

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

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using EBITDA only supplementally. See our consolidated income statements and consolidated statements of cash flows included elsewhere in this document.

EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, U.S. GAAP. EBITDA is not a measurement of our operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Reconciliation of EBITDA to net income is as follows for the periods indicated:

	Year ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands of U.S. dollars)				
Consolidated EBITDA reconciliation:					
Net income	913,051	603,249	381,180	1,342,706	143,508
Add:					
Depreciation, depletion and amortization	290,315	196,227	167,600	137,820	101,689
Interest expense	98,976	38,183	40,829	51,409	48,516
Income taxes	356,320	230,599	136,643	175,776	47,759
Consolidated EBITDA	1,658,662	1,068,258	726,252	1,707,711	341,472

Steel segment EBITDA reconciliation: