

Mechel OAO
Form 6-K
May 19, 2006

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934**

May 18, 2006

Commission File Number: 333-119497

MECHEL OAO

(Translation of registrant's name into English)

Krasnopresnenskaya Naberezhnaya 12

Moscow 123610

Russian Federation

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No

Note: Regulation S-T Rule 101(b)(c) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

MECHEL REPORTS 2005 FULL YEAR RESULTS

Revenues increased 4.6% to \$3.80 billion

Operating income of \$515.73 million

Net income \$381.18 million, \$2.85 per ADR or \$0.95 per diluted share

Moscow, Russia May 18, 2006 Mechel OAO (NYSE: MTL), a leading Russian integrated mining and steel group, today announced results for the full year, ended December 31, 2005.

| US\$ thousand | FY 2005 | FY 2004 | Change Y-on-Y |
|-----------------------------|--------------|--------------|------------------|
| Revenues | 3,804,995 | 3,635,955 | 4.6% |
| Net operating income | 515,728 | 750,807 | - 31.3% |
| <i>Net operating margin</i> | <i>13.6%</i> | <i>20.7%</i> | |
| Net income | 381,180 | 542,724(2) | - 29.8% |
| EBITDA (1) | 726,252 | 907,729(2) | - 20.0% |
| <i>EBITDA margin</i> | <i>19.1%</i> | <i>25.0%</i> | |

(1) See Attachment A.

(2) Net income and EBITDA for FY2004 were adjusted, not to include the gain on the sale of our shareholding in MMK.

Alexey Ivanushkin, Mechel's Chief Operating Officer, commented: 2005 was a challenging year for Mechel, as higher raw material costs and a more competitive pricing environment negatively impacted our profitability. However, we remained committed to our strategy of expanding our mining segment in order to partially offset the weakness in the steel segment. While global prices are something that we can not control, we are confident that the strategic actions we undertook during the year will benefit both segments in the long-term. We also decided to increase our dividend payout ratio to 50% of net profits under US GAAP for the year ended 31 December 2005, to reward shareholders' confidence and underscore our commitment to the best international corporate standards.

Consolidated Results

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Net revenue in 2005 rose 4.6% to \$3.80 billion from \$3.64 billion in 2004. Operating income was \$515.73 million, or 13.6% of net revenue, versus operating income of \$750.81 million, or 20.7% of net revenue, in 2004.

For 2005, Mechel reported consolidated net income of \$381.18 million, or \$2.85 per ADR (\$0.95 per diluted share), compared to consolidated net income of \$1.34 billion, or \$10.77 per ADR in 2004.

Consolidated EBITDA was \$726.25 million in 2005, compared to \$907.73 million a year ago, reflecting the negative impact of unstable market conditions on average realized prices for the main categories of our products in the middle of 2005. Please see the attached tables for a reconciliation of consolidated EBITDA to net income.

Consolidated results were affected by a write-off of fixed assets in Romanian operations in the amount of \$12.7 million, resulting from restructuring of production processes.

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Also, in the year ended December 31, 2005, foreign exchange loss was \$37.4 million, as compared to a gain of \$1.9 million in the year ended December 31, 2004. This foreign exchange loss is primarily attributed to losses from devaluation of our cash balances in euro accounts.

In March, Mechel revised and optimized capital expenditure program, allocating substantial additional funds for the continuing development and expansion of the mining segment and to improve efficiencies in its steel segment. The revised overall capital expenditure program for the five-year period of 2006 - 2010 totals \$1.1 billion. Approximately \$100 million will be allocated to the development of the Erunakovskaya deposit in southern Kuzbass area; \$100 million will be directed to the development of brownfield license areas of approximately 1 billion tonnes of predominantly coking coal. Steel segment projects will be mainly focused on Chelyabinsk Metallurgical Plant (CMP), Mechel's core steel-producing facility. These projects include completion of the construction of an additional continuous caster for approximately \$50 million, in line with Mechel's target to raise the proportion of steel produced through continuous casting from the current 38% to 60% in 2007. Other projects include a new coking battery and reconstruction of rolling facilities.

Mining Segment Results

| US\$ thousand | 2005 | 2004 | Change Y-on-Y |
|----------------------------------|-----------|---------|------------------|
| Revenues from external customers | 1,094,782 | 878,417 | 24.6% |
| Operating income | 401,252 | 384,053 | 4.5% |
| Net income | 313,736 | 328,350 | - 4.5% |
| EBITDA | 465,710 | 458,068 | 1.7% |
| <i>EBITDA margin</i> | 42.5% | 52.2% | |

Mining segment output

| Product | FY 2005, thousand tonnes | FY 2005 vs FY 2004, % |
|----------------------|--------------------------|-----------------------|
| Coal | 15,646 | 0.0 |
| Coking coal | 8,583 | - 8.0 |
| Steam coal | 7,063 | + 12.0 |
| Iron ore concentrate | 4,522 | + 17.0 |
| Nickel | 12.6 | - 1.0 |

Mining segment revenue for 2005 totaled \$1,094.78 million, or 28.8%, of consolidated net revenue, an increase of 24.6% over segment revenue of \$878.42 million, or 24.2%, of consolidated net revenue, in the 2004 full year period. The increase in revenues reflects maintaining of good output, strong market positions for our coal, and large-scaled sales of mining products to third parties.

Operating income in 2005 in the mining segment increased 4.5% to \$401.25 million, or 36.7%, of segment revenues from external customers, compared to operating income of \$384.05 million, or 43.7% of segment revenues from external customers a year ago. EBITDA in the mining segment in 2005 was \$465.71 million, 1.7% higher than EBITDA of \$458.07 million in 2004. The EBITDA margin of the mining segment was 42.5% in 2005.

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Mr. Ivanushkin commented on the results of the mining segment: While the global steel market remains uncertain due to excessive supply, the market fundamentals for coal continue to strengthen. During the year we were able to offset a decline in demand for coking coal resulting from a decline in demand from steel producers by increasing our output of steam coal and iron ore concentrate. While this decline in demand negatively impacted profitability in this segment, we were able to intensify our continued cost control initiatives to minimize negative consequences. In line with our strategy, we continued to further expand our coal reserves in 2005 through a number of transactions that have significantly enhanced the

capabilities of our coal segment, acquiring additional coking coal licenses for license areas with a total reserves of 1.15 billion tonnes according to Russian reserve valuation standards. We remain committed to further expanding our mining segment, and believe it will provide significant value for our shareholders.

Steel Segment Results

| US\$ thousand | 2005 | 2004 | Change Y-on-Y |
|----------------------------------|-----------|------------|------------------|
| Revenues from external customers | 2,710,213 | 2,757,538 | - 1.7% |
| Operating income | 114,475 | 366,754 | - 68.8% |
| Net income | 67,443 | 214,374(1) | - 68.5% |
| EBITDA | 260,542 | 449,661(1) | - 42.1% |
| <i>EBITDA margin</i> | 9.6% | 16.3% | |

(1) Net income and EBITDA were adjusted not to include the gain on the sale of our shareholding in MMK.

Steel segment output

| Product | FY 2005, thousand tonnes | FY 2005 vs FY 2004, % |
|-----------------|--------------------------|-----------------------|
| Coke | 2,589 | - 12.0 |
| Pig iron | 3,349 | - 14.0 |
| Steel | 5,899 | - 5.0 |
| Rolled products | 4,600 | - 2.0 |
| Hardware | 557 | 0.0 |

Revenue from Mechel's steel segment decreased 1.7% in 2005 from \$2.76 billion to \$2.71 billion, or 71.2% of consolidated net revenue, as compared to 2004.

For the 2005 full year period, the steel segment generated operating income of \$114.48 million, or 4.2%, of segment revenues from external customers, compared to operating income of \$366.75 million, or 13.3%, of segment revenues from external customers in the 2004 full year period. EBITDA in the steel segment for 2005 was \$260.54 million. The EBITDA margin of the steel segment was 9.6% in 2005.

In April of 2005, the Company announced the commissioning of a new sinter plant at CMP. The first lines of this plant generated approximately \$36.27 million in cost savings, as it allowed CMP to switch to iron feed based more on sinter, produced from Mechel's iron ore concentrate. The expected effect in 2006 will be \$37.21 in cost savings.

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Mr. Ivanushkin commented, Although pricing levels improved in the fourth quarter, the pricing environment remained difficult in the steel segment throughout 2005, and our profitability continued to be affected by higher raw material costs. In light of this, we have focused on controlling our cost structure, and began a number of initiatives during the year that will result in a steel segment better positioned to perform in the marketplace. While we expect these challenging conditions to continue in the short-term, we have seen a continued improvement in demand into the early part of 2006. The commissioning of our new sinter plant and concasting facilities at Chelyabinsk is progressing well and, as pricing firms, we would expect performance to return to more normalized levels.

Recent Highlights

Mechel announced that it would increase its annual dividend from 15% to 50% of net profits under US GAAP, starting with the dividend paid with respect to the 2005 fiscal year.

In March of 2006, Mechel established a 100%-owned subsidiary, Mechel Hardware OOO to sell hardware produced at its Beloretsk Metallurgical Plant, Vyartsilya Metal Products Plant, and Mechel Nemunas to the Russian and international markets.

Mechel recently announced the resolution adopted by the Board of Directors to place two issues, Series 02 and 03, of documentary interest-bearing inconvertible bonds with the par value of RUR 1,000.00, the amount of each issue to be RUR 5.0 billion, at the Moscow Interbank Currency Exchange (MICEX). The funds from the bond placement will be utilized to refinance the debt under the previous bond issues and to finance the long term investment programs of the Company's subsidiaries.

In April of 2006, Mechel announced the acquisition of a 100% stake in Metals Recycling OOO, a Chelyabinsk-based metal scrap processing company through its subsidiary, Mechel Service OOO for approximately US\$6.0 million. The transaction was a part of Mechel's policy to ensure its steel segment's self-sufficiency in raw materials.

During 2005, Mechel announced a number of transactions that have significantly expanded the capabilities of its coal segment. These include various successes at license auctions to develop coal deposits in the Olzherasskaya Mine plot, Razvedochny plot, Sorokinsky plot, Erunakovskaya-1 Mine and Erunakovskaya-3 Mine plots. Total license areas attributable to new licenses acquired is 1.15 billion tonnes, according to Russian reserve valuation standards, of which the vast majority is coking coal of high quality.

In January of 2005, Mechel also won an auction for the sale of ordinary shares in Yakutugol OAO that constitute 25% + 1 share of the company's charter capital for approximately \$411.2 million. Yakutugol's annual output is approximately 9 million tonnes, of which approximately 5.0 million tonnes is coking coal. The acquisition further expands Mechel's mining holdings while also increasing its exposure to the Asia-Pacific region.

Continued progress on Mechel's commitment to investing in its operations to reduce operating costs and increase efficiency. In September of 2005, Mechel announced the start-up of the second line of a new, four-line sinter plant at its Chelyabinsk Metallurgical Plant subsidiary. The new plant will increase Mechel's ability to internally

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source its iron ore requirements from its iron ore mine, Korshunov Mining Plant. Once fully operational, the plant, which will cost approximately \$150 million, will generate approximately \$70 million in annual cost savings.

To diversify the cargo flow of our coal and steel products and to improve our logistics, Mechel acquired 90.36% stake in Kambarka Port OAO - one of Russia's largest river ports. The facility specializes in the transshipment of bulk cargo, including ore, iron ore concentrate and coal.

Mr. Ivanushkin concluded, We have always believed that Mechel's position as an integrated producer of both coal and steel products would benefit us in difficult market periods. This was proven in 2005, as the diversity of our operations allowed us to remain significantly profitable despite the challenging conditions we faced in several of our markets. Over the course of the year we have taken a number of actions that we believe position us well for the future. We have made significant investments in our coal operations, and undertaken actions to improve the profitability of our steel business. At the same time, we have seen indications of a recovery in demand within the steel sector, which should benefit both sides of our business. As we move into 2006, we will continue to concentrate on the overall profitability of our

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Financial Position

Cash expenditure on mineral licenses, property, plant and equipment for the 2005 full year amounted to \$520.6 million, of which \$260.1 million was invested in the mining segment and \$260.5 million in the steel segment.

For the 2005 full year, Mechel spent \$488.6 million on acquisitions, comprised of \$411.2 million for 25%+1 share of Yakutugol Holding Company OAO, \$3.5 million for 90.4% of the shares of Port Kambarka OAO, \$16.0 million for 25.1% of the shares of Izhstal OAO, \$52.9 million for 6.8% of the shares of Chelyabinsk Metallurgical Plant OAO, \$3.4 million for 10.5% of the shares of Korshunov Mining Plant and \$1.6 million was spent on acquisition of minority interest in other subsidiaries.

As of December 31, 2005, total debt(1) was at \$435.0 million. Cash and cash equivalents amounted to \$311.8 million at the end of the year and net debt amounted to \$123.2 million (net debt is defined as total debt outstanding less cash and cash equivalents).

* One American Depositary Share is equivalent to three diluted shares.

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

Mechel OAO

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

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Mechel, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements. We refer you to the documents Mechel files from time to time with the U.S. Securities and Exchange Commission, including our Form 20-F. These documents contain and identify important factors, including those contained in the section captioned *Risk Factors* and*

Cautionary Note Regarding Forward-Looking Statements in our Form 20-F, that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the achievement of anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the impact of competitive pricing, the ability to obtain necessary regulatory approvals and licenses, the impact of developments in the Russian economic, political and legal environment, volatility in stock markets or in the price of our shares or ADRs, financial risk management and the impact of general business and global economic conditions.

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

Attachments to the FY 2005 Earnings Press Release

Attachment A

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

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

| US\$ thousands | 2005 | 2004(1) |
|--|---------|---------|
| Net income | 381,180 | 542,724 |
| Add: | | |
| Depreciation, depletion and amortization | 167,600 | 137,820 |
| Interest expense | 40,829 | 51,409 |
| Income taxes | 136,643 | 175,776 |
| Consolidated EBITDA | 726,252 | 907,729 |

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

| US\$ thousands | 2005 | 2004(1) |
|----------------|-----------|-----------|
| Revenue, net | 3,804,995 | 3,635,955 |
| EBITDA | 726,252 | 907,729 |
| EBITDA margin | 19.1% | 25.0% |

(1) Excluding MMK gain

Consolidated statements of cash flow

for the years ended December 31, 2005, 2004 and 2003

| (in thousands of U.S. dollars, except share amounts) | 2005 | 2004 | 2003 |
|--|----------------|----------------|----------------|
| Cash Flows from Operating Activities | | | |
| Net income | 381 180 | 1 342 706 | 143 508 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 147 117 | 120 444 | 83 980 |
| Depletion and amortization | 20 483 | 17 376 | 17 709 |
| Foreign exchange loss (gain) | 37 435 | -1 884 | 2 867 |
| Deferred income taxes | -12 535 | -11 217 | -6 905 |
| Provision for (recovery of) doubtful accounts | 3 569 | -7 859 | 10 011 |
| Inventory write-down | 5 938 | 2 183 | 4 624 |
| Accretion expense | 3 248 | 2 081 | 2 433 |
| Loss on write-off of property, plant and equipment | 12 667 | 0 | 0 |
| Minority interest | 6 879 | 11 673 | -18 980 |
| Effect of change in accounting principle | 0 | 0 | 3 788 |
| Income from equity investments | -12 426 | -4 621 | -1 221 |
| Non-cash interest on long-term tax and pension liabilities | 13 749 | 11 425 | 13 302 |
| Loss on sale of property, plant and equipment | 1 801 | 5 736 | 4 111 |
| Gain on sale of long-term investments | -2 743 | -803 405 | -2 417 |
| Loss from discontinued operations | 1 157 | 15 211 | 5 790 |
| Gain on accounts payable with expired legal term | -23 347 | -1 250 | -1 400 |
| Gain on forgiveness of fines and penalties | -38 383 | -18 296 | -9 588 |
| Stock-based compensation expense | 0 | 1 400 | 2 200 |
| Amortization of capitalized costs on bonds issue | 1 553 | 1 525 | 835 |
| Pension service cost and amortization of prior year service cost | 2 511 | 2 187 | 0 |
| Extraordinary gain | 0 | -271 | -5 740 |
| Net change before changes in working capital | 549 853 | 685 144 | 248 907 |
| Changes in working capital items, net of effects from acquisition of new subsidiaries: | | | |
| Accounts receivable | 23 602 | -2 831 | -4 031 |
| Inventories | 14 614 | -170 726 | -97 783 |
| Trade payable to vendors of goods and services | 60 087 | -1 305 | -14 468 |
| Advances received | -46 269 | 4 902 | 13 316 |
| Accrued taxes and other liabilities | 14 868 | 4 176 | 19 328 |
| Settlements with related parties | 12 658 | 1 253 | -12 815 |
| Current assets and liabilities of discontinued operations | 57 | -4 134 | -17 036 |
| Deferred revenue and cost of inventory in transit, net | 4 624 | -22 607 | 13 949 |
| Other current assets | -15 219 | -197 734 | -29 509 |
| Net cash provided by operating activities | 618 875 | 296 137 | 119 858 |
| Cash Flows from Investing Activities | | | |
| Acquisition of subsidiaries, less cash acquired | -3 497 | 0 | -20 919 |
| Acquisition of minority interest in subsidiaries | -79 936 | -37 021 | -3 776 |
| Investment in Korshunov Mining Plant | 0 | 0 | -82 793 |
| Investment in Yakutugol | -411 182 | 0 | 0 |
| Acquisition of Izhstal | 0 | -22 742 | 0 |
| Acquisition of Port Posiet | 0 | -29 966 | 0 |
| Acquisition of Kaslinsky Architectural Casting Plant | 0 | -996 | 0 |
| Investments in other non-marketable securities | -7 554 | -29 762 | -28 525 |
| Proceeds from disposal of discontinued operations | 0 | 0 | 5 162 |
| Proceeds from disposal of non-marketable equity securities | 19 388 | 875 967 | 33 577 |
| Proceeds from disposals of property, plant and equipment | 2 628 | 3 647 | 3 813 |
| Purchases of mineral licenses | -93 033 | 0 | 0 |

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| | | | |
|---|------------------|------------------|-----------------|
| Purchases of property, plant and equipment | -427 521 | -303 411 | -116 856 |
| Net cash (used in) provided by investing activities | -994 707 | 455 716 | -210 317 |
| Cash Flows from Financing Activities | | | |
| Proceeds from short-term borrowings | 1 577 984 | 954 733 | 781 525 |
| Repayment of short-term borrowings | -1 686 578 | -941 340 | -747 815 |
| Dividends paid | -194 154 | -5 145 | -26 282 |
| Dividends received | 2 000 | 0 | 0 |
| Proceeds from issuance of common stock | 0 | 220 873 | 0 |
| Proceeds from long-term debt | 14 815 | 75 241 | 112 736 |
| Repayment of long-term debt | -20 180 | -52 093 | -23 482 |
| Loans and notes received from related parties | 0 | 0 | 6 397 |
| Repayment of obligations under finance lease | -757 | 0 | 0 |
| Net cash (used in) provided by financing activities | -306 870 | 252 269 | 103 079 |
| Effect of exchange rate changes on cash and cash equivalents | -30 284 | 1 360 | 991 |
| Net (decrease) increase in cash and cash equivalents | -712 986 | 1 005 482 | 13 611 |
| Cash and cash equivalents at beginning of year | 1 024 761 | 19 279 | 5 668 |
| Cash and cash equivalents at end of year | 311 775 | 1 024 761 | 19 279 |
| Supplementary cash flow information: | | | |
| Interest paid, net of amount capitalized | -43 354 | -62 835 | -32 394 |
| Income taxes paid | -171 774 | -136 473 | -53 884 |
| Non-cash Activities: | | | |
| Net assets of subsidiaries contributed by minority shareholders in exchange for shares issued by SKCC | 17 460 | 340 | 4 428 |
| Acquisition of plant and equipment in exchange for goods | 0 | 3 071 | 0 |
| Acquisition of equipment under finance lease | 10 291 | 0 | 0 |
| Assumption of debt in business combination | 0 | 0 | 2 673 |
| Treasury shares issued to subsidiary | 0 | 9 723 | 0 |

Mechel OAO

Consolidated statement of operations

for the years ended December 31, 2005, 2004 and 2003

| (in thousands of U.S. dollars, except share amounts) | 2005 | 2004 | 2003 |
|---|-------------|-------------|-------------|
| Revenue, net (including related party amounts of \$65,431, \$68,806 and \$211,943 during 2005, 2004 and 2003, respectively) | 3 804 995 | 3 635 955 | 2 028 051 |
| Cost of goods sold (including related party amounts of \$74,795, \$12,756 and \$212,492 during 2005, 2004 and 2003, respectively) | -2 469 134 | -2 225 088 | -1 422 987 |
| Gross margin | 1 335 861 | 1 410 867 | 605 064 |
| Selling, distribution and operating expenses: | | | |
| Selling and distribution expenses | -450 238 | -367 514 | -213 977 |
| Taxes other than income tax | -90 683 | -69 285 | -44 716 |
| Accretion expense | -3 248 | -2 081 | -2 433 |
| Loss on write-off of property, plant and equipment | -12 667 | 0 | 0 |
| (Provision for) recovery of doubtful accounts | -3 569 | 7 859 | -9 056 |
| General, administrative and other operating expenses | -259 728 | -229 039 | -137 201 |
| Total selling, distribution and operating expenses | -820 133 | -660 060 | -407 383 |
| Operating income | 515 728 | 750 807 | 197 681 |
| Other income and (expense): | | | |
| Income from equity investees | 12 426 | 4 621 | 1 221 |
| Interest income | 10 049 | 2 375 | 2 274 |
| Interest expense | -40 829 | -51 409 | -48 516 |
| Other income, net | 65 920 | 836 817 | 26 333 |
| Foreign exchange (loss) gain | -37 435 | 1 884 | -2 867 |
| Total other income and (expense) | 10 131 | 794 288 | -21 555 |
| Income before income tax, minority interest, discontinued operations, extraordinary gain and change in accounting principles | 525 859 | 1 545 095 | 176 126 |
| Income tax expense | -136 643 | -175 776 | -47 759 |
| Minority interest in (income) loss of subsidiaries | -6 879 | -11 673 | 18 979 |
| Income from continuing operations | 382 337 | 1 357 646 | 147 346 |
| Loss from discontinued operations, net of tax | -1 157 | -15 211 | -5 790 |
| Extraordinary gain, net of tax | 0 | 271 | 5 740 |
| Income before cumulative effect of change in accounting principle | 381 180 | 1 342 706 | 147 296 |
| Change in accounting principle, net of tax | 0 | - | -3 788 |
| Net income | 381 180 | 1 342 706 | 143 508 |
| Currency translation adjustment | -53 822 | 49 116 | 46 921 |
| Adjustment of available-for-sale securities | 2 181 | -2 350 | 0 |
| Comprehensive income | 329 539 | 1 389 472 | 190 429 |
| Basic and diluted earnings per share: | | | |
| Earnings per share from continuing operations | 0.95 | 3.63 | 0.39 |
| Loss per share effect of discontinued operations | (0.00) | (0.04) | (0.01) |
| Earnings per share effect of extraordinary gain | 0.00 | 0.00 | 0.02 |
| Earnings per share effect of a change in accounting principle | 0.00 | 0.00 | (0.01) |
| Net income per share | 0.95 | 3.59 | 0.39 |
| Weighted average number of common shares outstanding | 403 118 680 | 373 971 312 | 366 178 815 |

Mechel OAO

Consolidated balance sheets

as of December 31, 2005 and December 31, 2004

| (in thousands of U.S. dollars, except share amounts) | December 31, 2005 | December 31, 2004 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | 311 775 | 1 024 761 |
| Accounts receivable, net of allowance for doubtful accounts of \$17,509 in 2005 and \$20,850 in 2004 | 140 649 | 135 597 |
| Due from related parties | 4 473 | 16 474 |
| Inventories | 496 658 | 568 545 |
| Deferred cost of inventory in transit | 49 893 | 0 |
| Current assets of discontinued operations | 88 | 1 247 |
| Deferred income taxes | 8 965 | 7 491 |
| Prepayments and other current assets | 346 981 | 349 090 |
| Total current assets | 1 359 483 | 2 103 205 |
| Long-term investments in related parties | 408 709 | 9 270 |
| Other long-term investments | 16 148 | 66 663 |
| Non-current assets of discontinued operations | 97 | 165 |
| Intangible assets, net | 7 590 | 6 379 |
| Property, plant and equipment, net | 1 508 984 | 1 274 722 |
| Mineral licenses, net | 242 006 | 166 483 |
| Deferred income taxes | 17 487 | 11 940 |
| Goodwill | 39 580 | 39 441 |
| Total assets | 3 600 083 | 3 678 268 |
| Liabilities and Shareholders' Equity | | |
| Short-term borrowings and current portion of long-term debt | 389 411 | 348 880 |
| Accounts payable and accrued expenses: | | |
| Advances received | 47 367 | 94 964 |
| Accrued expenses and other current liabilities | 79 405 | 68 147 |
| Taxes and social charges payable | 144 715 | 145 527 |
| Trade payable to vendors of goods and services | 210 228 | 186 233 |
| Due to related parties | 2 937 | 3 748 |
| Current liabilities of discontinued operations | 109 | 30 |
| Asset retirement obligation | 4 236 | 8 219 |
| Deferred income taxes | 26 557 | 26 521 |
| Deferred revenue | 55 267 | 760 |
| Pension obligations | 8 189 | 6 261 |
| Finance lease liabilities | 887 | 0 |
| Total current liabilities | 969 308 | 889 290 |
| Long-term debt, net of current portion | 45 615 | 216 313 |
| Restructured taxes and social charges payable, net of current portion | 33 866 | 87 364 |
| Asset retirement obligations, net of current portion | 54 816 | 66 758 |
| Pension obligations, net of current portion | 43 510 | 40 720 |
| Deferred income taxes | 105 481 | 105 330 |
| Other long-term liabilities | 0 | 240 |
| Finance lease liabilities, net of current portion | 9 179 | 0 |
| Commitments and contingencies | 0 | 0 |
| Minority interests | 127 834 | 214 824 |

Shareholders Equity

| | | |
|---|------------------|------------------|
| Common shares (10 Russian rubles par value; 497,969,086 shares authorized, 416,270,745 shares issued and 403,118,680 shares outstanding as of December 31, 2005 and 2004) | 133 507 | 133 507 |
| Treasury shares, at cost (13,152,065 common shares as of December 31, 2005 and 2004) | -4 187 | -4 187 |
| Additional paid-in capital | 321 864 | 304 404 |
| Accumulated other comprehensive income | 42 046 | 93 687 |
| Retained earnings | 1 717 244 | 1 530 218 |
| Total shareholders equity | 2 210 474 | 2 057 629 |
| Total liabilities and shareholders equity | 3 600 083 | 3 678 268 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MECHEL OAO

| | |
|--------|-----------------|
| By: | Vladimir Iorich |
| Name: | Vladimir Iorich |
| Title: | CEO |

Date: May 18, 2006