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Russian Miner Mechel Says Sanctions Could Affect Its U.S. Coal Business

By The Moscow Times

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Mechel, controlled by businessman Igor Zyuzin, says sanctions could affect its U.S. coal business.

Further sanctions against Russia over the Ukraine crisis could affect indebted Russian miner Mechel's U.S. coal business Bluestone, Mechel said in its annual report on Friday.

The situation in Ukraine since Russia' annexation of Crimea has developed into the worst standoff between Russia and the West since the Cold War, prompting Washington and Brussels to impose sanctions on some Russian individuals and companies.

Western governments have so far refrained from imposing sanctions on leading companies, but they have threatened further measures that could target key sectors such as energy and banking if the crisis escalates.

Mechel said the company could face sanctions affecting its Bluestone coal assets in the U.S. and that it could not assure that further sanctions "would not have a material adverse effect

on our business, financial condition, results of operations and prospects".

The sanctions already imposed could have the indirect effect of damaging the Russian economy, further accelerating capital flight from Russia and negative investor sentiment towards the country, making it harder for Russian companies to access international financial markets, Mechel said.

The coalminer and steelmaker, controlled by businessman Igor Zyuzin, has been hit by weak prices for its products, forcing it to sell loss-making assets and to negotiate delayed debt repayment with creditors.

Its 2013 net loss widened to a record $2.9 billion after more than $2 billion of write-offs.

Mechel has been looking to sell Bluestone since the first half of 2013 to lower its $8.6 billion of net debt. It had temporarily halted mining at the company in late April because of weak coal prices.

At the end of 2013 almost 20 percent of the company's total borrowings were provided by international banks or their Russian subsidiaries, Mechel said.

The Ukrainian economy is also facing significant risks during the period of uncertainty, the company added in the report. Its 2013 revenue from exports to Ukraine was $52.8 million, or 0.6 percent of its total revenue, which could decrease in the current year.

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