

# 1H 2016 RESULTS PRESENTATION

August 29, 2016



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# **CORE MARKETS DEVELOPMENTS AND OPERATIONAL HIGHLIGHTS**

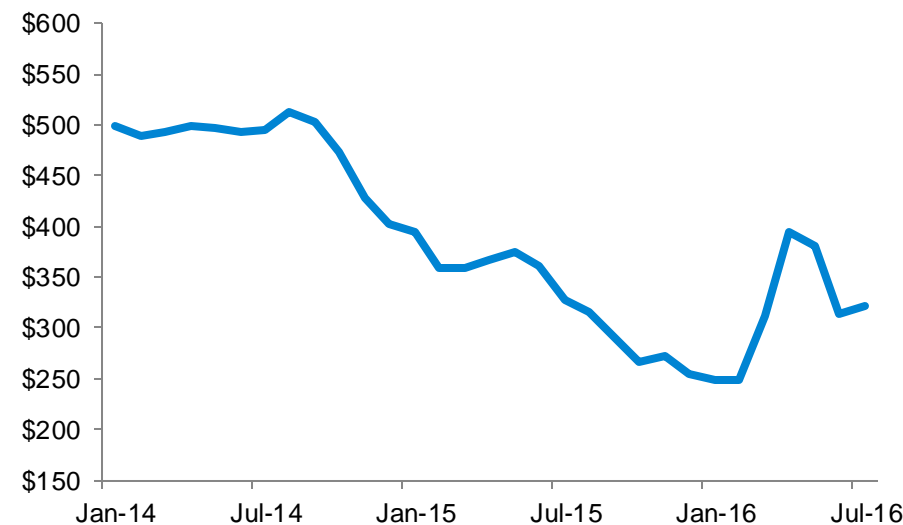
Oleg Korzhov – CEO

# KEY MARKET DRIVERS AND FINANCIAL RESULTS



- Prices for steel products ramped up at the end of 1Q16 and maintained at a high levels during 2Q16. Seasonal factors as well as overheating of market led to price correction in 3Q16
- HCC market closed at the end of 2015 with a record minimum spot prices over the previous 11 years at a level of US\$75
- Starting from the end of 1Q16 prices for HCC demonstrated growth with a further ramp up starting from beginning of August with current spot price at US\$128
- MECHEL demonstrated strong operational performance in 2Q16 vs 1Q16 due to the supportive demand both on a coal and steel markets
- MECHEL's Operating profit increased by 23% H-o-H and reached 17.2 bln RUB, with EBITDA\* growth by 9% up to 25.7 bln RUB
- Mining segment EBITDA increased 10% to 14.4 bln RUB with EBITDA margin 26% due to the positive impact of cost cutting initiatives
- Steel segment EBITDA remained stable at a level of 9.5 bln RUB with EBITDA margin 12%
- Starting from 1H16 MECHEL has started to supply rails to Russian Railways and total volume of production reached 122 th tons during this period
- MECHEL maintained secured position as one lowest cash-cost producer of steel and coal world-wide
- MECHEL completed restructuring of its debts with Russian State Banks with extension of repayment profile up to 7 years and other lenders which totally represent 76% of Group's debt

**Billet FOB Black Sea, US\$/t**



Source: Metal Courier

**Spot HCC prices FOB Australia, US\$/t**



Source: Bloomberg

\* Here and further EBITDA is calculated as Adjusted EBITDA in accordance with definitions in Press release Appendix A



# 1H 2016 PRODUCTION AND SALES SUMMARY



## Production (th tonnes)

Product	1H'16	1H'15	%	2Q16	1Q16	%
Run-of-mine Coal	11,528	11,448	+1	5,864	5,663	+4
Pig Iron	2,044	2,045	0	1,039	1,005	+3
Steel	2,112	2,147	-2	1,067	1,044	+2

## Sales (th tonnes)

Product	1H'16	1H'15	%	2Q16	1Q16	%
Coking Coal	4,470	4,068	+10	2,249	2,221	+1
Steam coal	3,575	3,039	+18	1,863	1,713	+9
Flat Products	253	237	+7	126	128	-2
Long products	1,504	1,367	+10	770	734	+5

- **Production volumes** remained stable H-o-H, but **favorable market supported increase in production in 2Q16 vs. 1Q16**
- Steady ramp up of **Universal rolling mill** capacity utilization quarter by quarter resulted in **+175% production volumes increase** comparable to 1H15.
- **Elga coal project production growth** was the major driver for overall increase in Group's mining volumes
- **Coking and steam coal sales demonstrated strong performance** H-o-H, reflecting improvement on our major markets
- **Steel segment sales has grown H-o-H** to take advantage of higher pricing and favorable markets

## KEY PROJECTS RESULTS



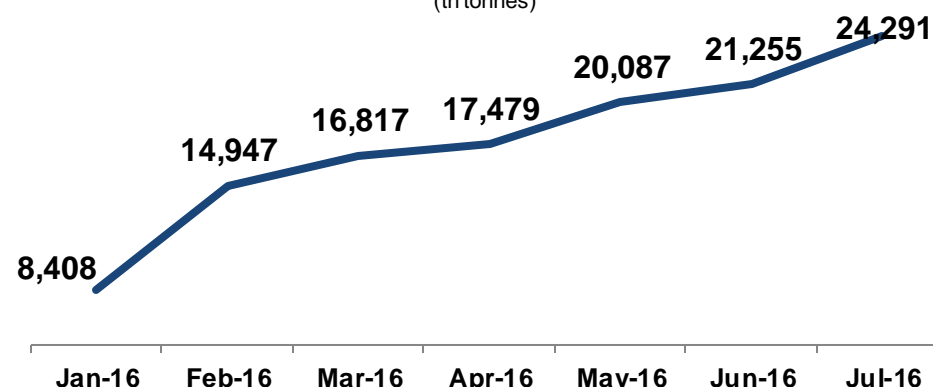
### Universal mill on Chelyabinsk metallurgical plant

- From January 2016 Mechel started supply of rails to Russian railways
- Total volume of supply during 1H16 amounted to 122 th tonnes, including 99 th tonnes to Russian Railways
- Total order from Russian railways for 2016 amounts to 250 mln tonnes
- Total mill capacity utilization during 2016 is projected at 60% level with further increase in 2017

Universal rolling mill production (th tonnes)

Product	1H'16	1H'15	%	2Q16	1Q16	%
Rails, beams and shapes	213	78	+175	117	96	+21

Sales of rails to Russian Railways in Jan- July 2016  
(th tonnes)



### Elga coal project development

- Consistent growth of mining volumes
- In 1H2016 share of coking coal in total mining volumes exceeded 80%
- Utilization of washing capacities at Elga mine at a level of 75%

Elga Coal Complex (th tonnes)

Product	1H'16	1H'15	%	2Q16	1Q16	%
Run-of-mine coal	2,011	1,864	+8	1,018	993	+3

## OPERATIONAL AND STRATEGIC GOALS ACHIEVEMENTS



- **Conclusion of restructuring with Russian State Banks** with up to 7 years amortization
- **Completion of public debt (ruble bonds) restructuring** with 5 years amortization
- **Start of rails production on Universal rolling mill.** In 1H2016 rails market share of 23% was achieved
- **Growth both in Coking coal mining and sales volumes**
- **Capital expenditures** on investment projects amounted to **1,664 mln RUB** and **maintenance CAPEX - 873 mln RUB** (under management accounts)
- Completion of transaction for **sale of 49% of Elga coal complex to Gazprombank**
- **Reduction of debt by RUB 32.9 bln** from the proceeds of Elga coal complex sale resulted in Net Debt / EBITDA ratio decreased from 11 to 9.5
- **Port Posiet modernization completed.** As a result coal **handling volumes in 1H 2016 increased to 3.5 mln tonnes (+50%)** (including 374 th tonnes of third-party coal)

# **KEY FINANCIAL RESULTS**

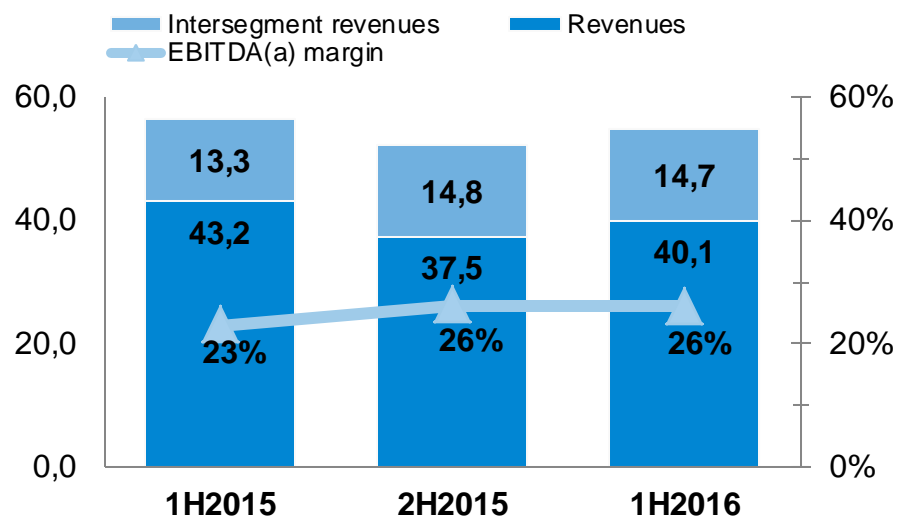
**Sergey Rezontov – Chief Financial Officer**



# MINING SEGMENT

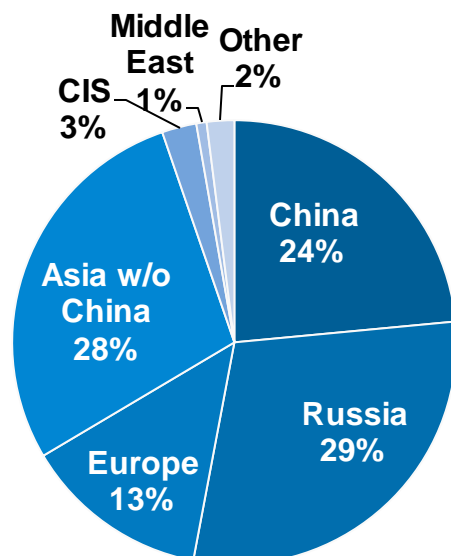


## REVENUE, EBITDA MARGIN

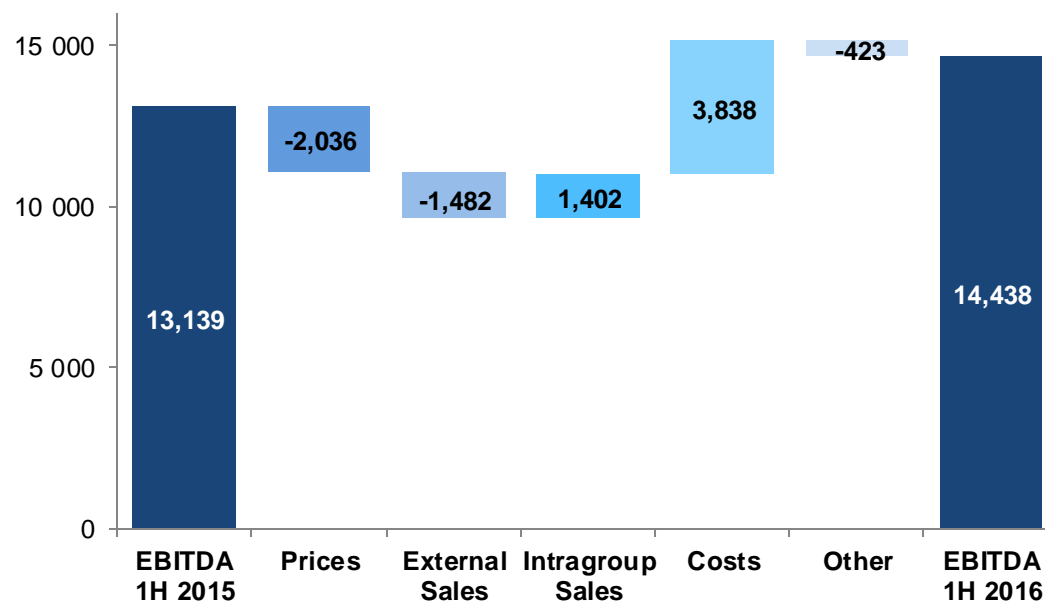


- **Strong demand on Asian markets** remains the key for the group for coal sales with increase of its shares from 46% to 52% H-o-H
- **Domestic sales increased** due to partially replacement of purchase of coal products from third parties
- **Close control for the operations supports lowest levels cash costs** on open pit mines of Yakutugol and Elga
- **100% of iron ore production** is dedicated for internal consumption

## REVENUE BREAKDOWN BY REGIONS



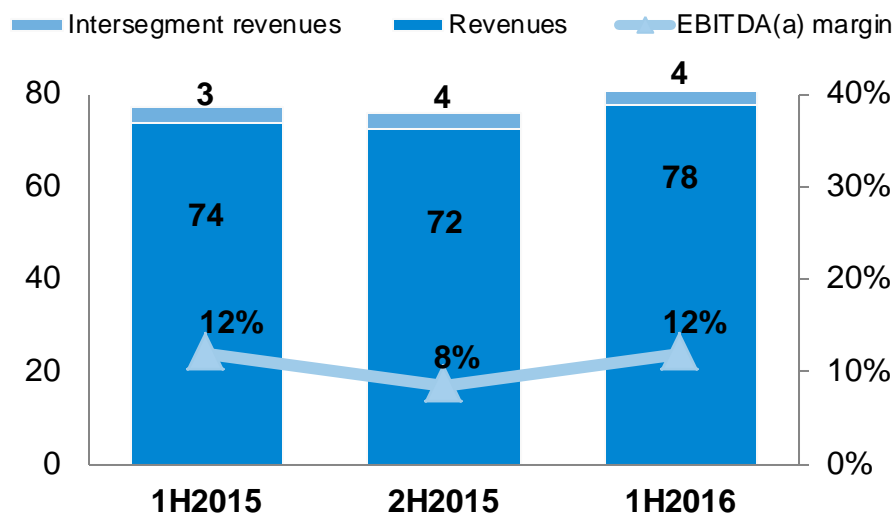
## EBITDA



# STEEL SEGMENT

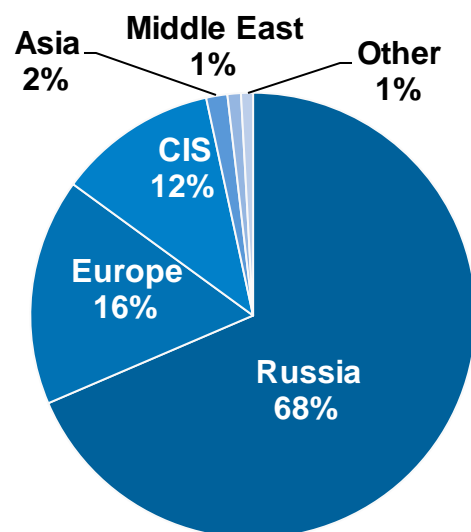


## REVENUE, EBITDA

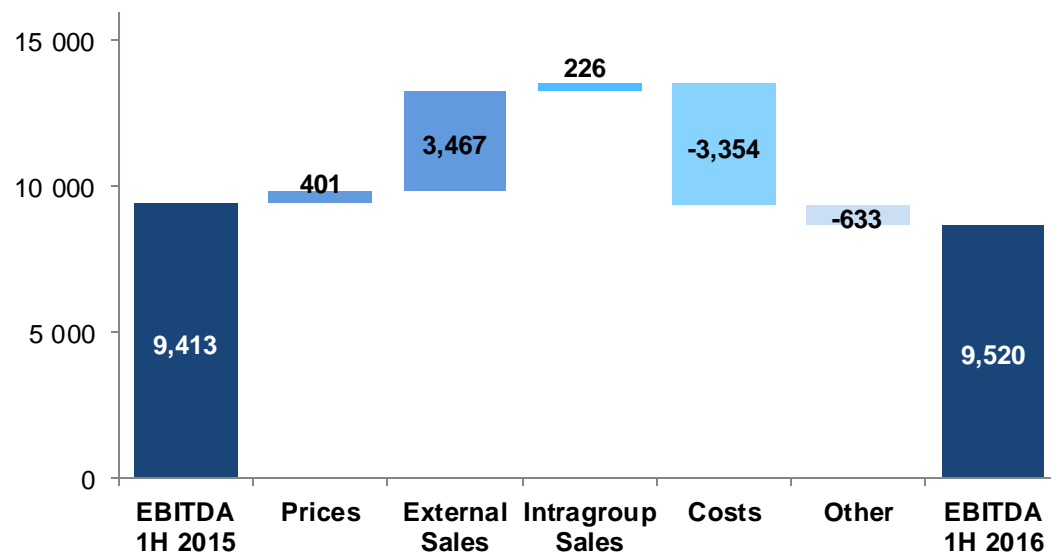


- **83% of sales from Russian steel plants is dedicated for domestic market**
- Most part of **European sales** comes from distribution business of **Mechel Service Global** through its **warehouses**
- **Production Cash costs** for almost all product range **remain stable**
- Further utilization of capacities on **Universal mill project** will support **increase of higher margin products production**

## REVENUE BREAKDOWN BY REGIONS



## EBITDA



# 1H 2016 FINANCIAL RESULTS SUMMARY

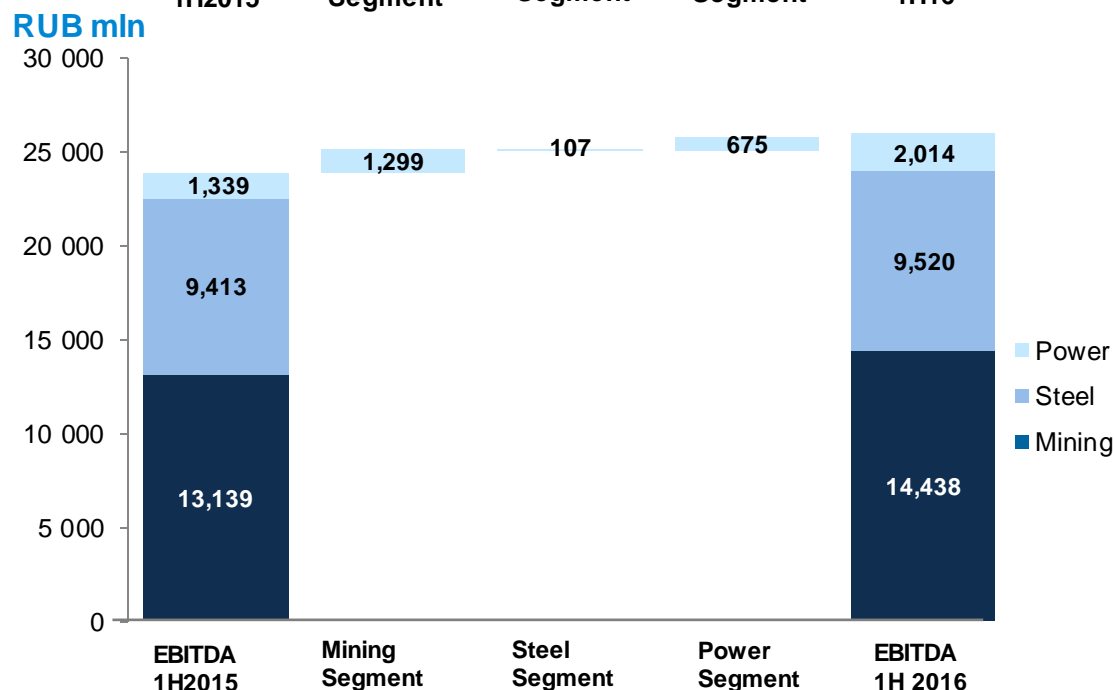
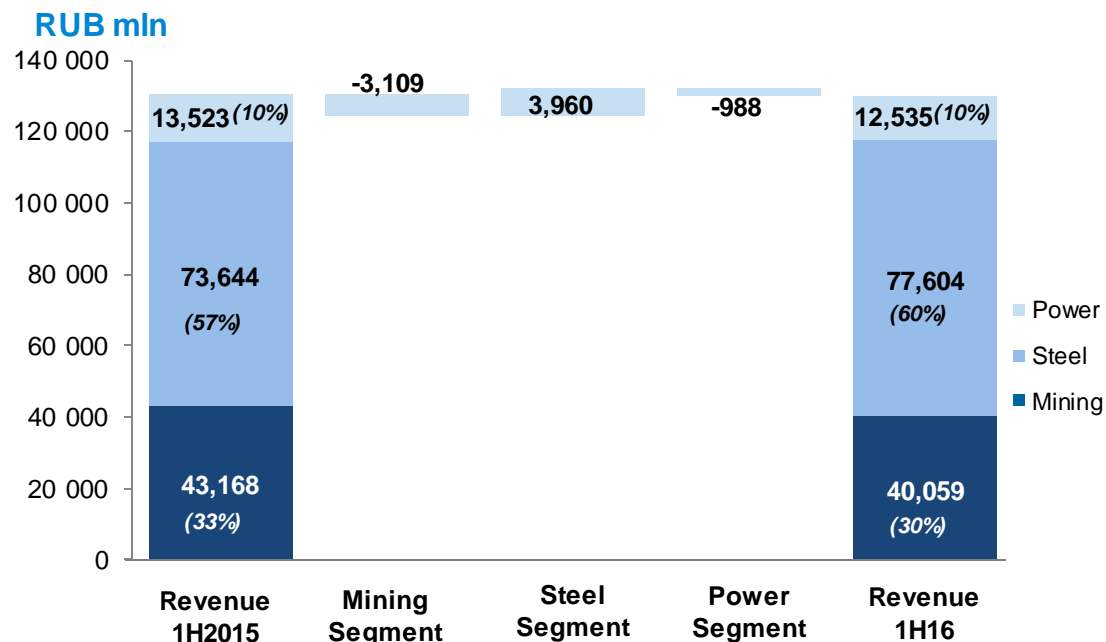


RUB mln	1H 2016	1H 2015	%
<b>Revenue</b>	130,197	130,334	0%
<b>Operating profit</b>	17,200	13,945	23%
<b>EBITDA</b>	25,721	23,602	9%
<b>EBITDA margin, %</b>	20%	18%	
<b>Net profit / (loss)</b> attributable to shareholders of Mechel PAO	8,300	(16,746)	

- **Consolidated Revenue** to third parties remains **flat H-o-H**
- **Operating profit up 23%** on benefits of vertical integration and costs optimization. **2/3 of Operation profit is attributed for 2Q16** following recovery on both steel and coal
- **EBITDA increased by 9%** with **EBITDA margin** reaching **20%**.
- Group generated **Net profit of 8.3 bln RUB** - first Net profit for the 6M period since 2011

\* For full calculations here and after see our press release

# CONSOLIDATED REVENUE AND EBITDA DYNAMICS

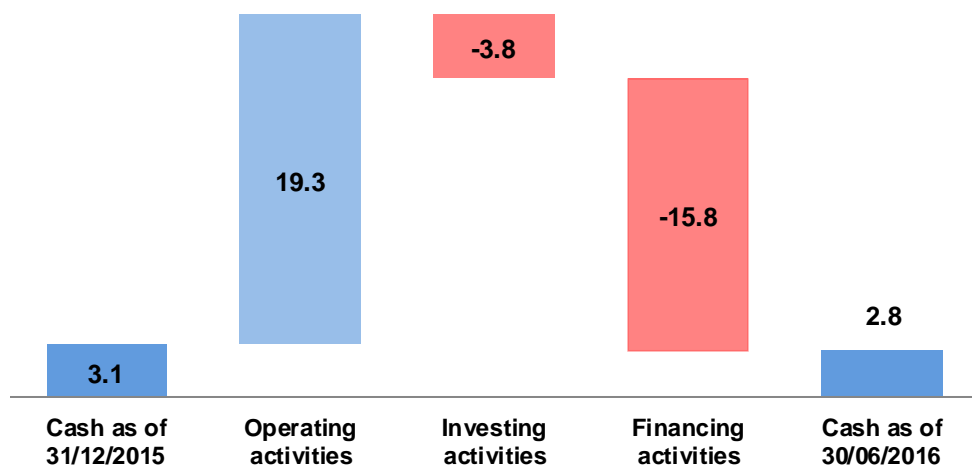


- Mining segment Revenue to 3<sup>rd</sup> parties decreased by 7% H-o-H on lower coal prices and softer PCI and Anthracites demand
- Steel segment is a major contributor to Consolidated Revenue. After its 3<sup>rd</sup> party Revenue increased by 5% on better sales volumes and prices H-o-H, its share increased from 57% to 60%
- Power segment 3<sup>rd</sup> party Revenue slightly decreased by 7% on lower sales volumes due to maintenance works on equipment
- Consolidated EBITDA increased by 9% H-o-H
- Mining segment EBITDA increased by 10% H-o-H due to the positive impact of cost cutting effect
- Steel segment EBITDA remained stable H-o-H
- Power segment EBITDA increased by 50% H-o-H on operation efficiency

# CASH FLOW & TRADE WORKING CAPITAL

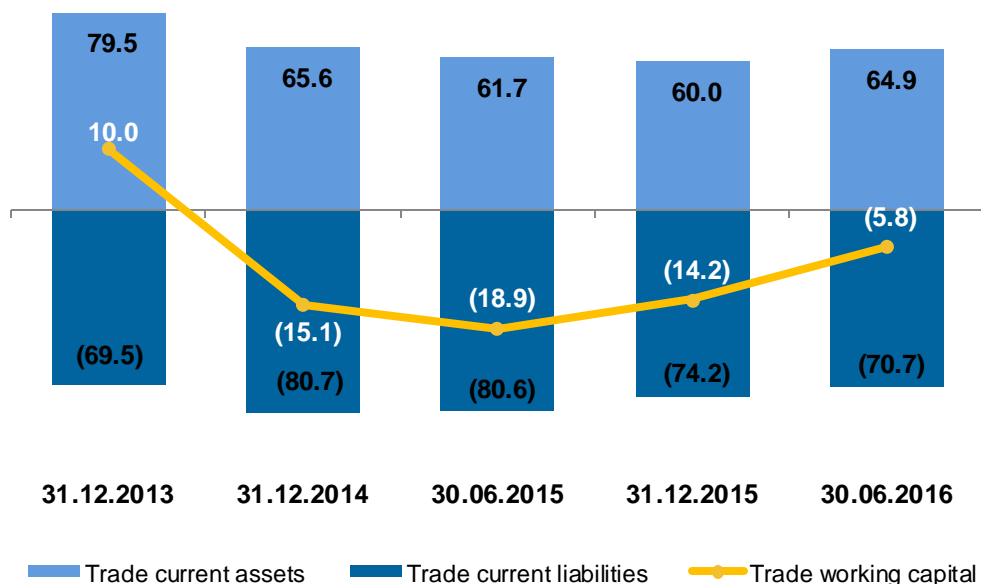


## CASH FLOW, RUB BLN

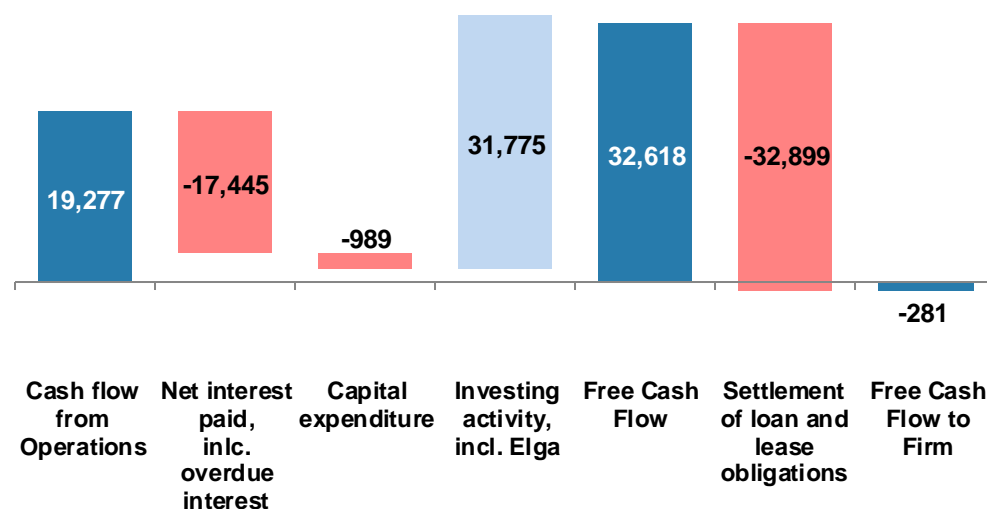


- **Operating activities** almost completely **cover needs for financing investing and financing activities** even though first quarter of 2016 was quite challenging as prices for steel and coal were on their lows levels
- **Trade working capital** demonstrates further improvement with **increase by almost 7.5 bln RUB** and tends to move to positive value
- Sale of 49% in Elga supported to raise funds for partial **repayment of debt in amount 32.9 bln RUB**

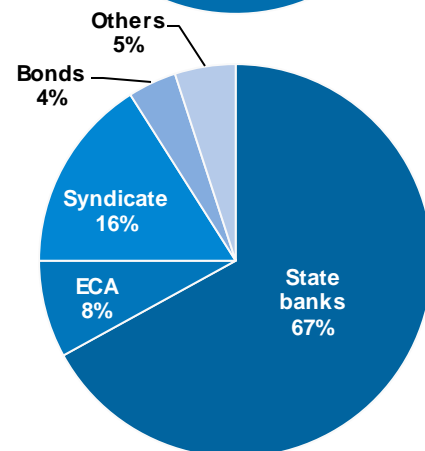
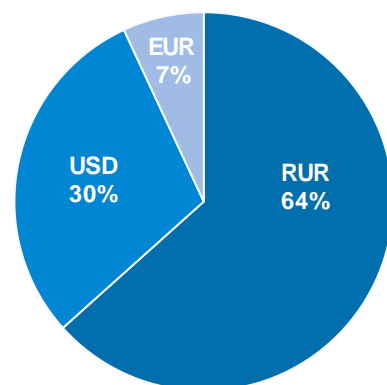
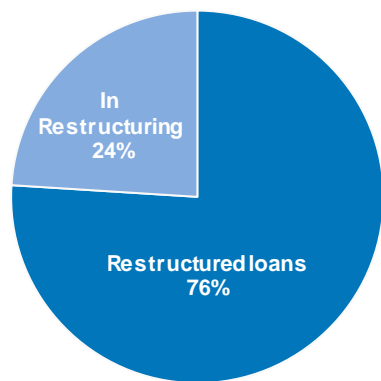
## TRADE WORKING CAPITAL MANAGEMENT, RUB BLN



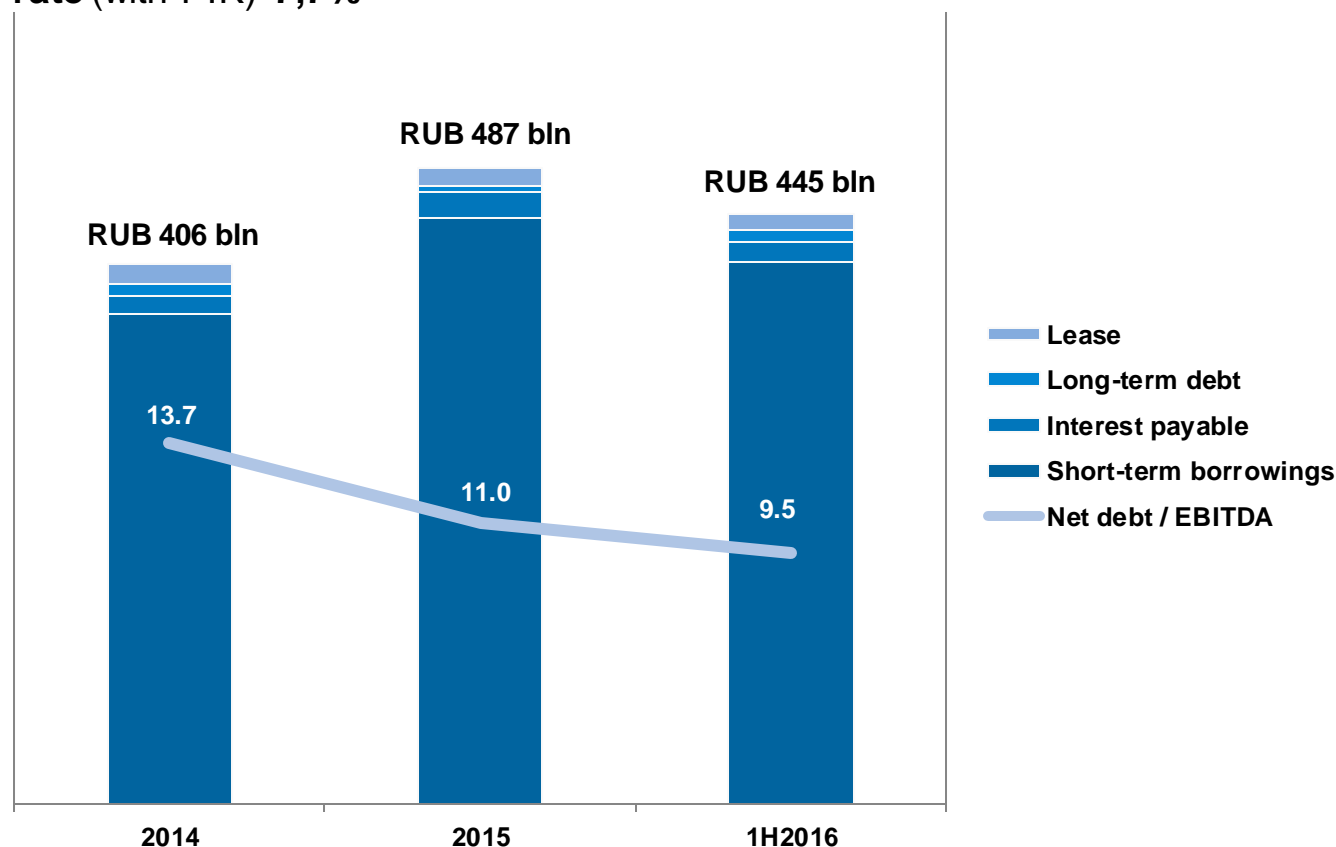
## FREE CASH FLOW, RUB MLN



# DEBT STRUCTURE & NET DEBT / EBITDA RATIO DYNAMICS



- As of August 2016 - **76% of Group's debt is restructured**; ruble portion amounts to **64%**; and **state banks hold 67% of our debt portfolio**.
- Due to partial debt repayment (32.9 bln RUB) and EBITDA increase (up to 46.6 bln RUB for the previous 12 months) **net leverage is consistently decreasing**
- **Average interest rate** through debt portfolio is **10,3%** and it trends lower as ruble rates linked to Central bank key rate and **average paid interest rate** (with PIK) **7,7%**

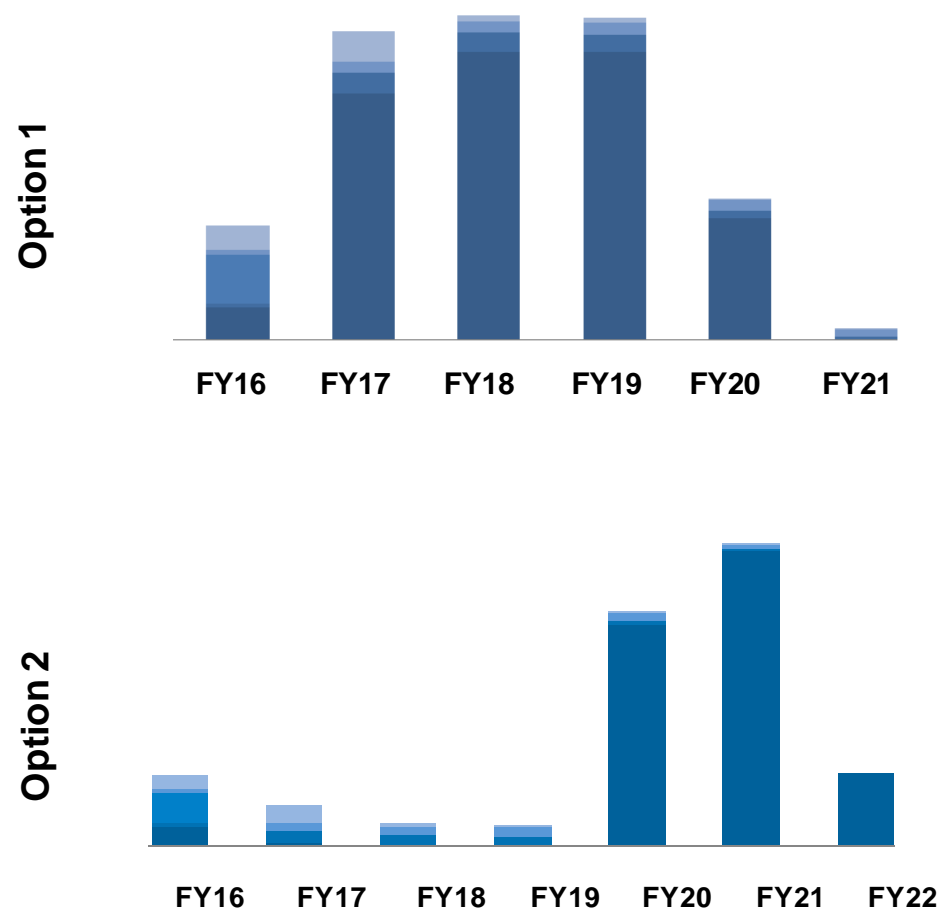




# DEBT RESTRUCTURING



## DEBT REPAYMENT PROFILE:



## DEBT RESTRUCTURING TERMS:

### Tenure

Option 1 – grace period till 2017 and repayment till 2020

Option 2 – grace period till 2020 and repayment till 2022 subject to acceptance of extension by all 3 Russian State Banks (RSB)

### Interest rates

Rates tied to LIBOR and CBR Key rate;  
Paid interest under ruble loans with RSB at a level of 8.75% (with PIK for remaining part)

### Penalties and fines

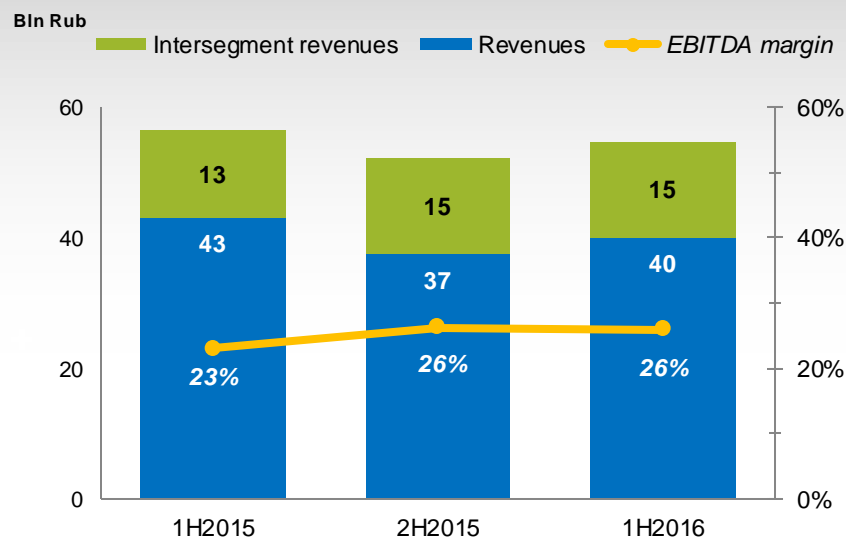
Banks have agreed to waive the accrued penalties and fines after repayment of overdue interest

# APPENDIX

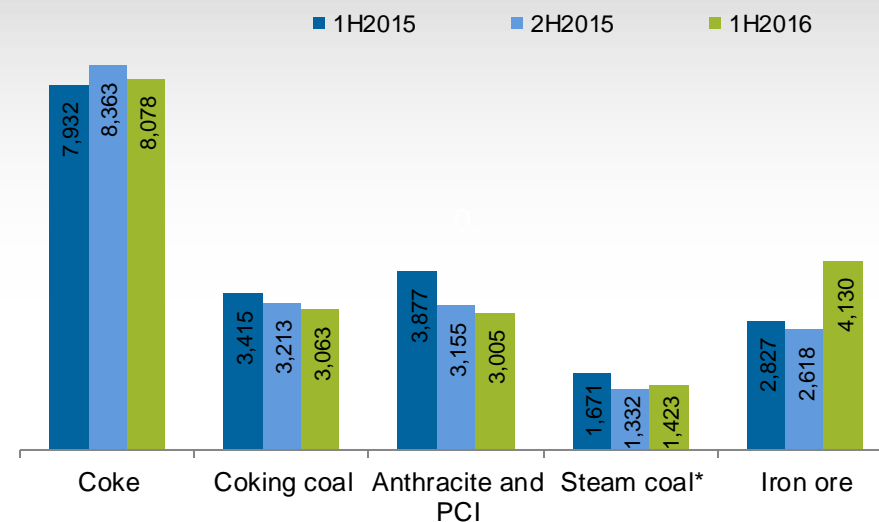
# MINING SEGMENT



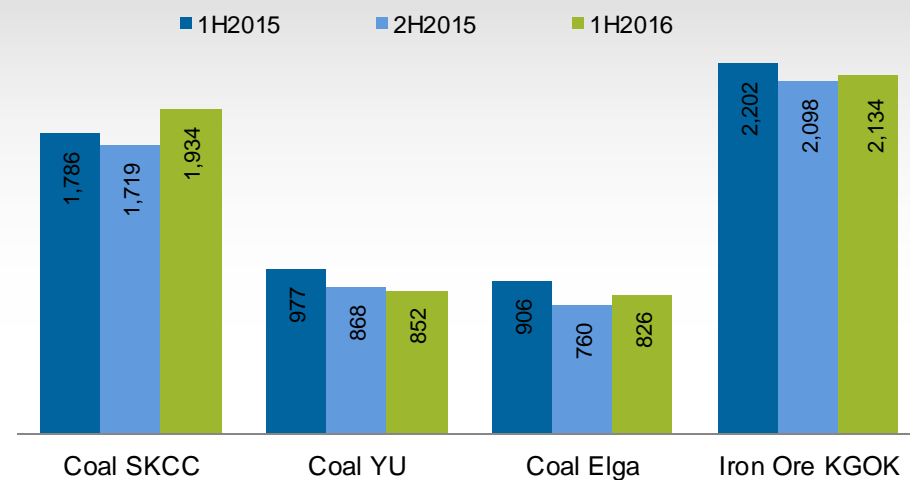
## REVENUE, EBITDA



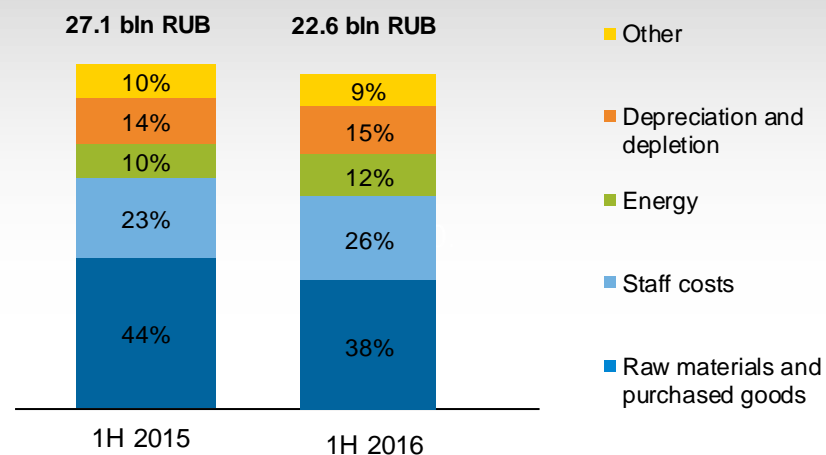
## AVERAGE SALES PRICES FCA, RUB/TONNE



## CASH COSTS, RUB/TONNE



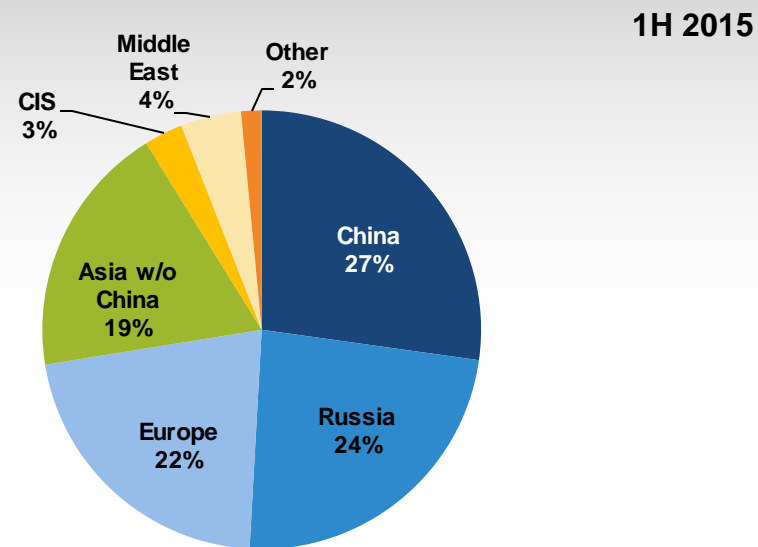
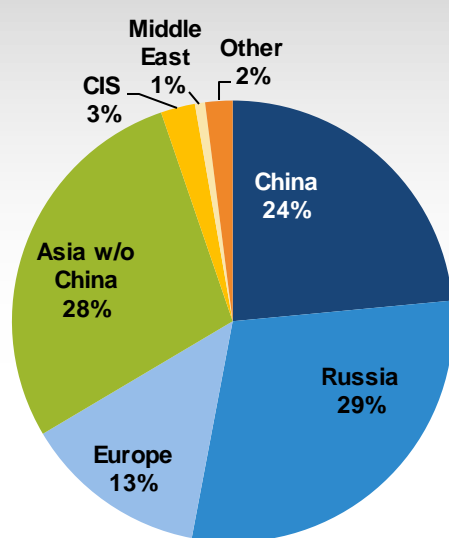
## COS STRUCTURE



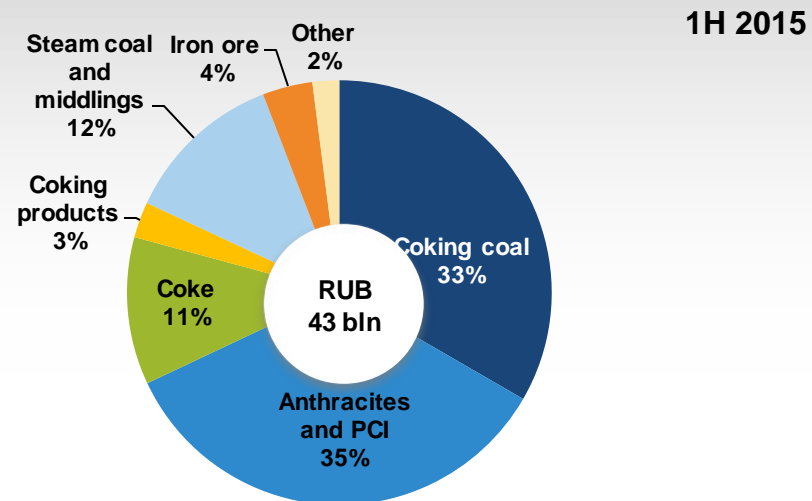
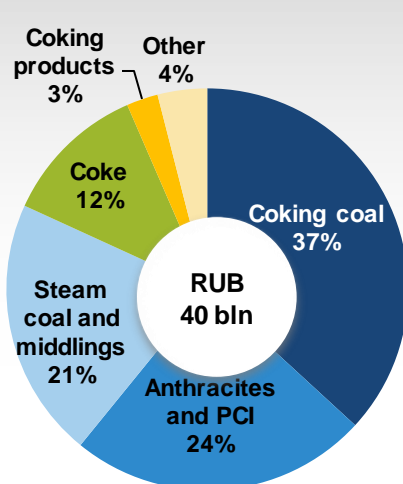
# MINING SEGMENT



## REVENUE BREAKDOWN BY REGIONS



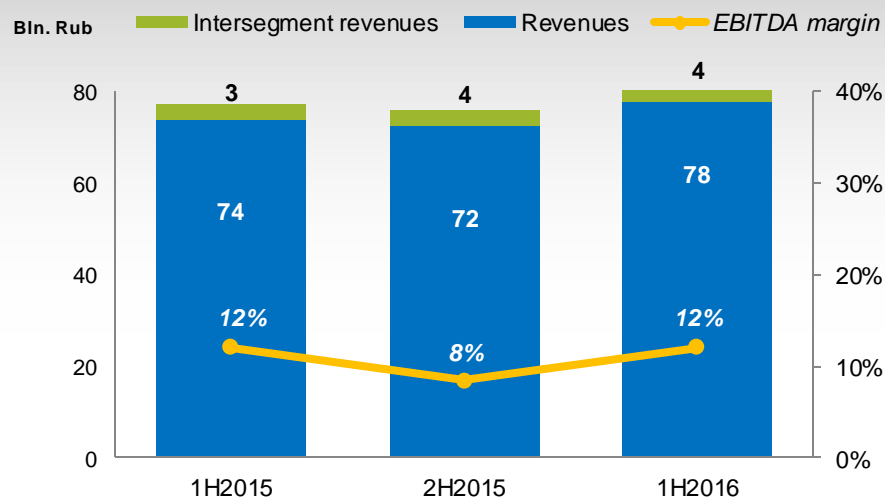
## REVENUE BREAKDOWN BY PRODUCTS



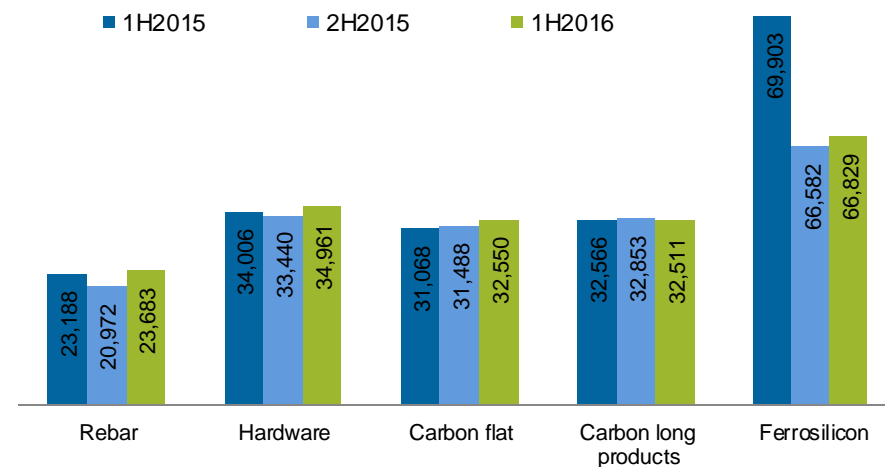
# STEEL SEGMENT



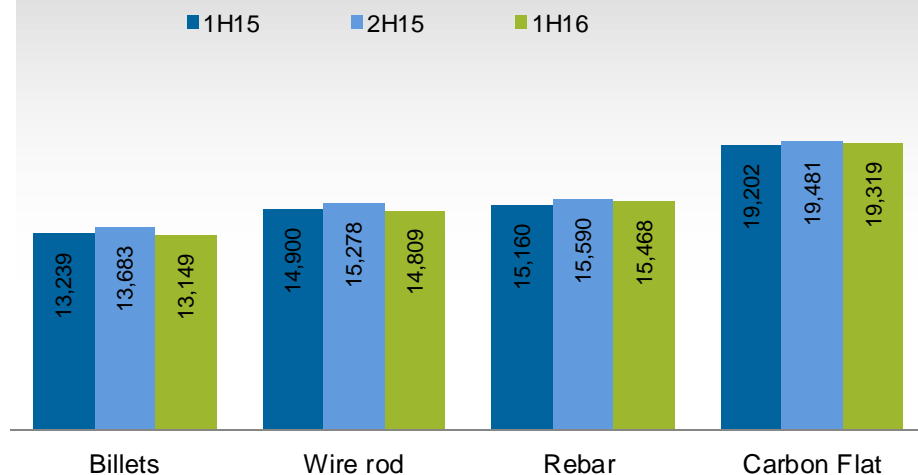
## REVENUE, EBITDA



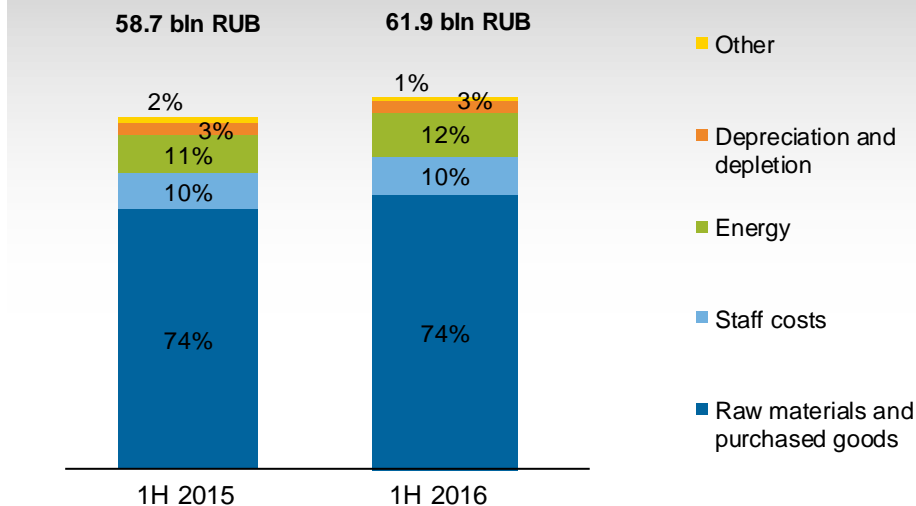
## AVERAGE SALES PRICES FCA, RUB/TONNE



## CASH COSTS, RUB/TONNE



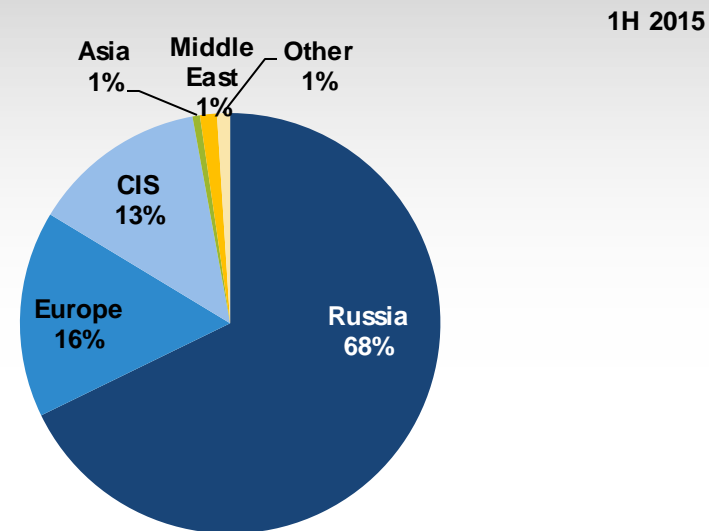
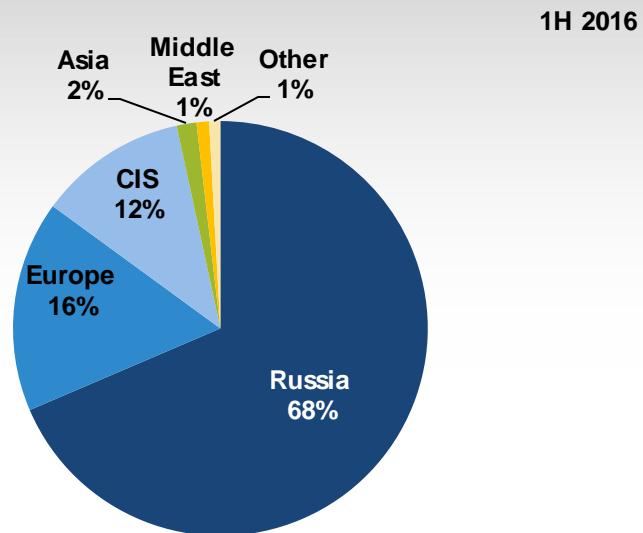
## COS STRUCTURE



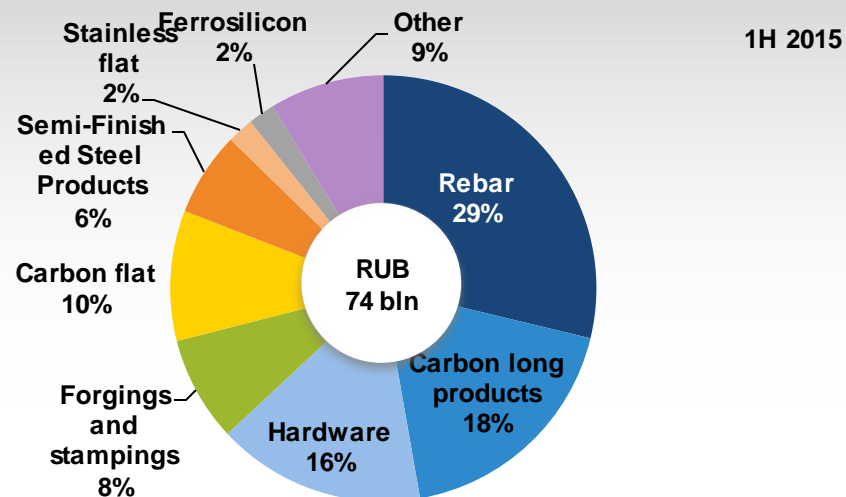
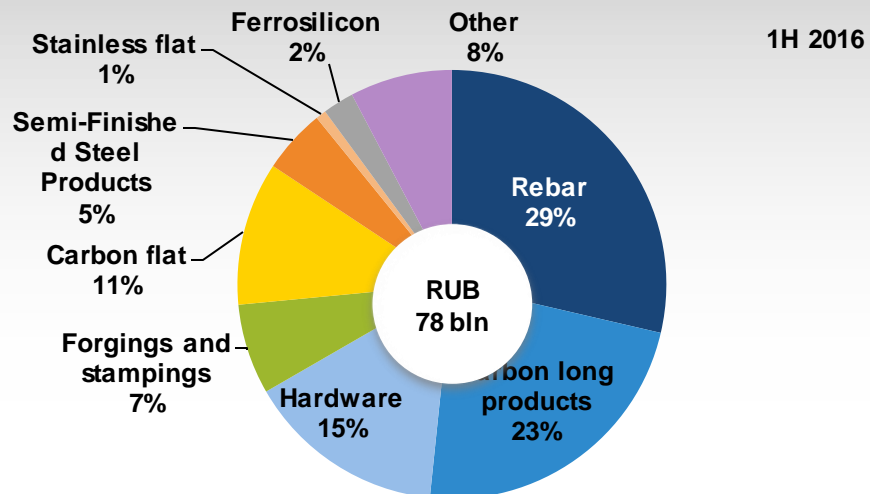
# STEEL SEGMENT



## REVENUE BREAKDOWN BY REGIONS



## REVENUE BREAKDOWN BY PRODUCTS

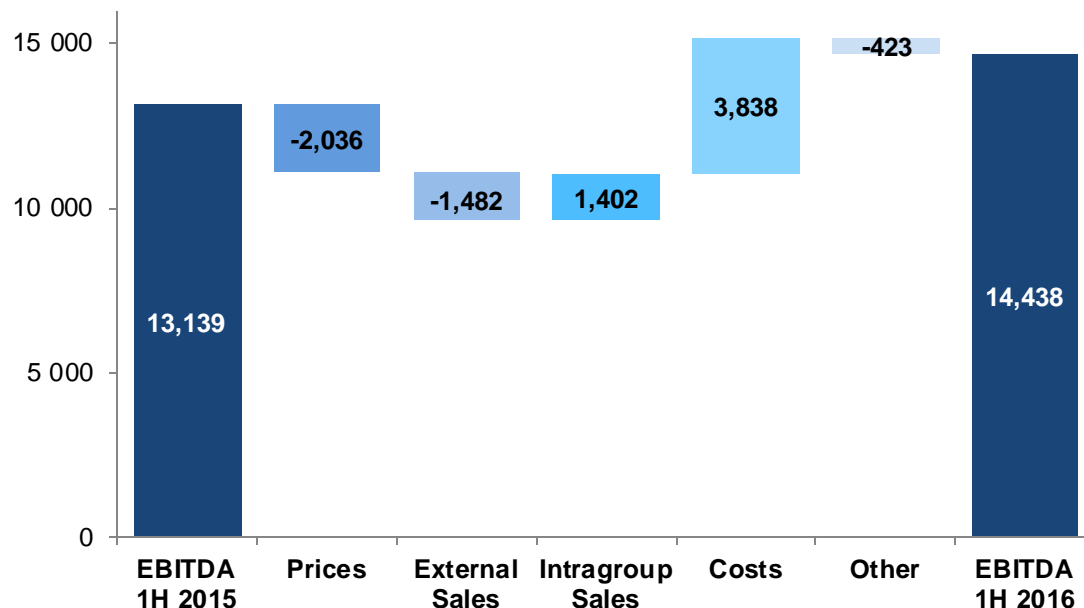




# MINING AND STEEL EBITDA DYNAMICS

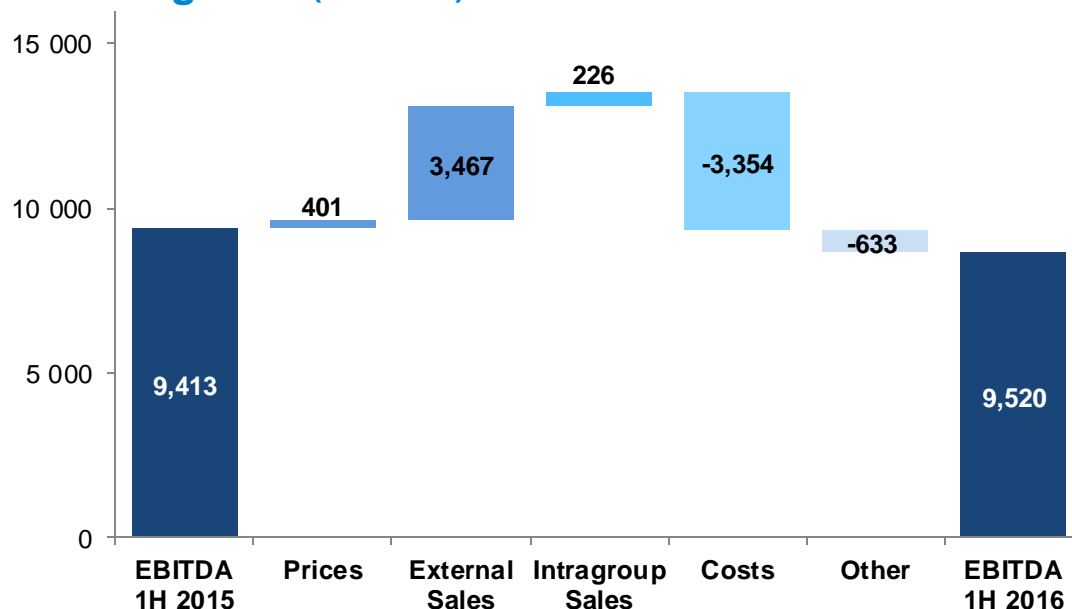


## Mining segment (RUB mln)



- Mining segment EBITDA increased by 10%
- Major negative factor was record lowest coal prices during 1Q16
- Group has replaced purchase of coals from third parties with its own production, including Elga coal project
- Largest positive impact was from decrease of costs as a results of improvement of efficiency of operations

## Steel segment (RUB mln)



- Steel segment EBITDA remained stable
- Growth of revenue is correlated with increase of costs for materials, electricity etc.
- Average prices in both half-year periods were similar and did not have much impact on EBITDA

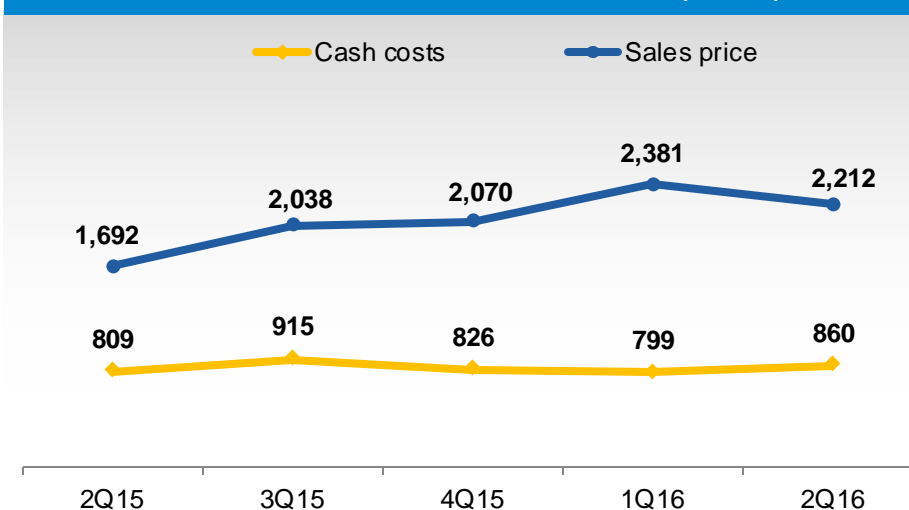
# POWER SEGMENT



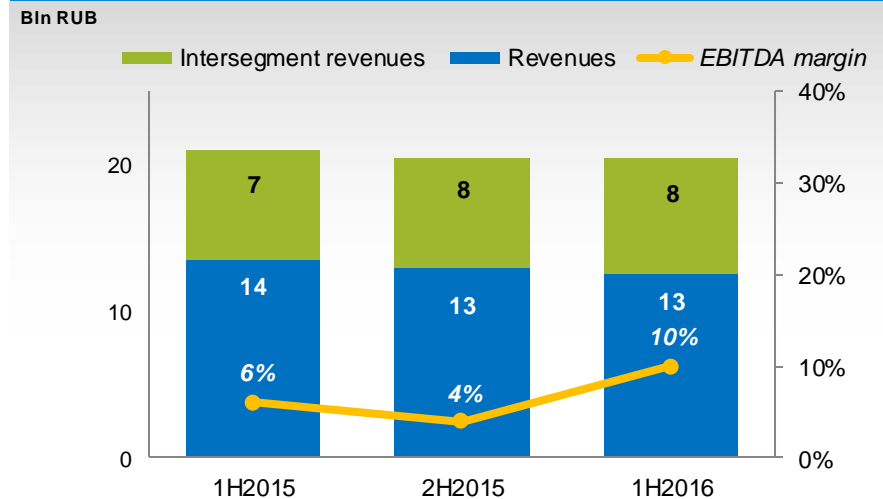
Revenue from external customers decreased by 7% on additional equipment repair operations.  
Intersegment Revenue was flat

Lower cash costs and growing prices resulted in 50% EBITDA increase.

## AVERAGE ELECTRICITY SALES PRICES AND CASH COSTS (RUSSIA), RUB/KWH



## REVENUE, EBITDA



## COS STRUCTURE

