

1H 2016 RESULTS PRESENTATION

August 29, 2016



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CORE MARKETS DEVELOPMENTS AND OPERATIONAL HIGHLIGHTS

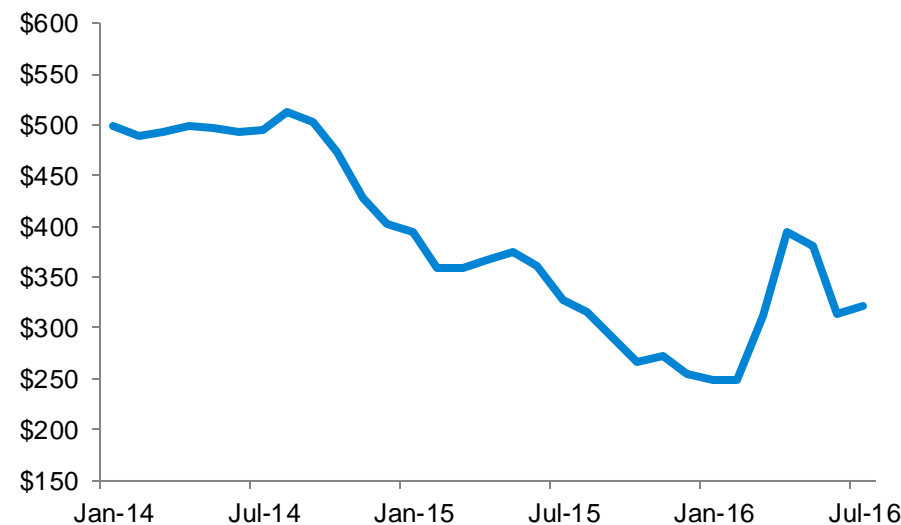
Oleg Korzhov – CEO

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



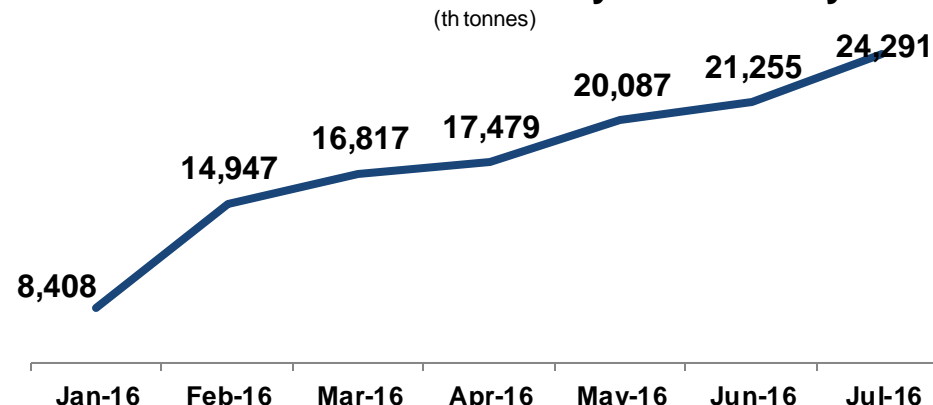
Universal mill on Chelyabinsk metallurgical plant

- 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



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)

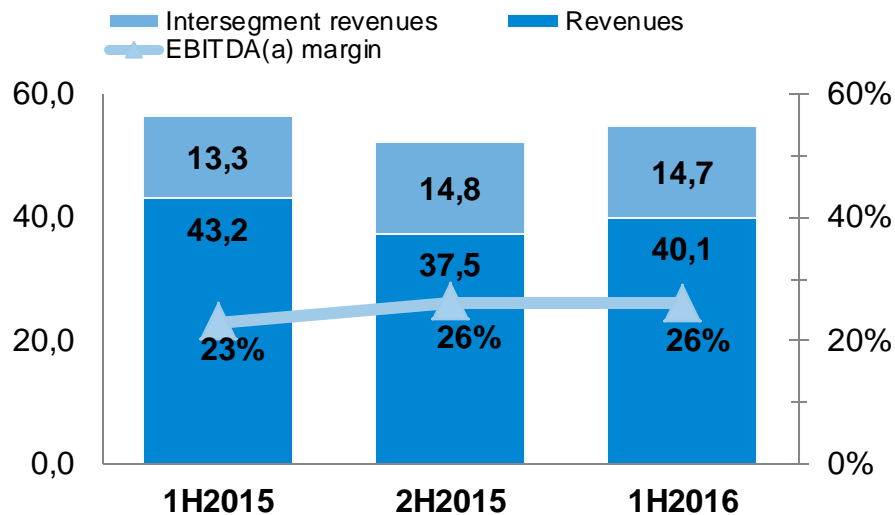
KEY FINANCIAL RESULTS

Sergey Rezontov – Chief Financial Officer

MINING SEGMENT

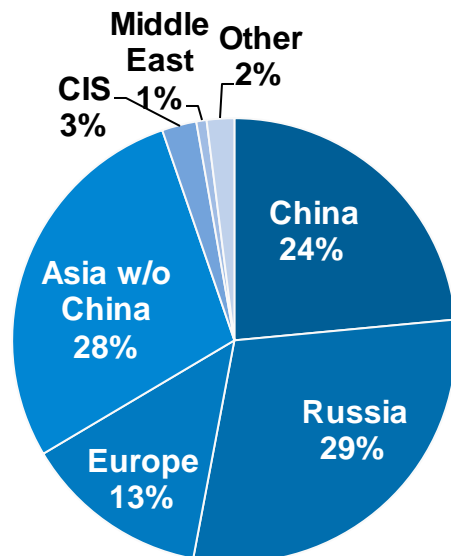


REVENUE, EBITDA MARGIN

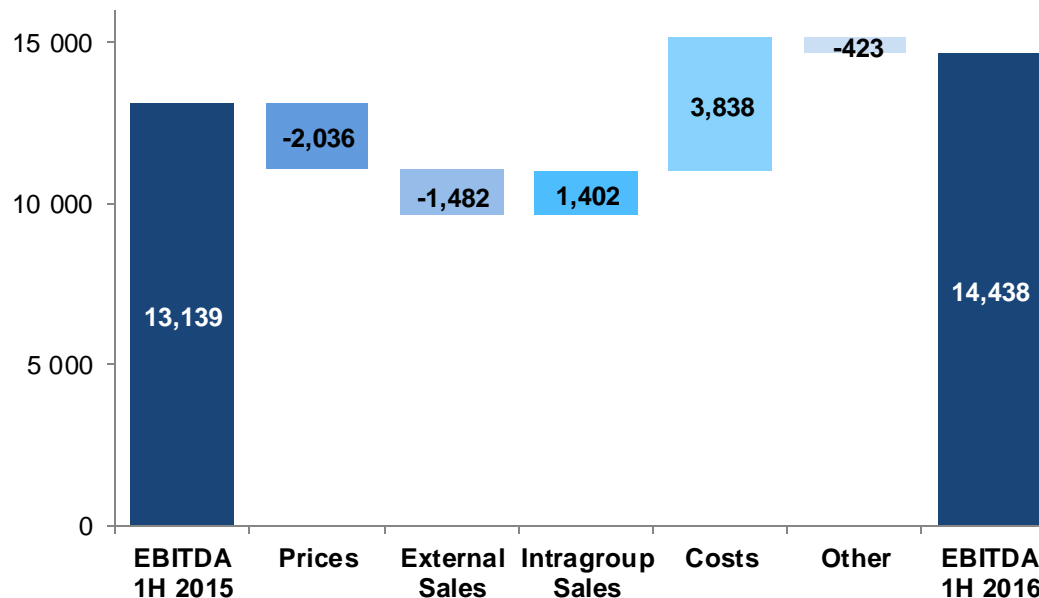


- **Strong demand on Asian markets** remains the key for the group for coal sales with increase of its shares from 46% to 52% H-o-H
- **Domestic sales increased** due to partially replacement of purchase of coal products from third parties
- **Close control for the operations supports lowest levels cash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

REVENUE BREAKDOWN BY REGIONS



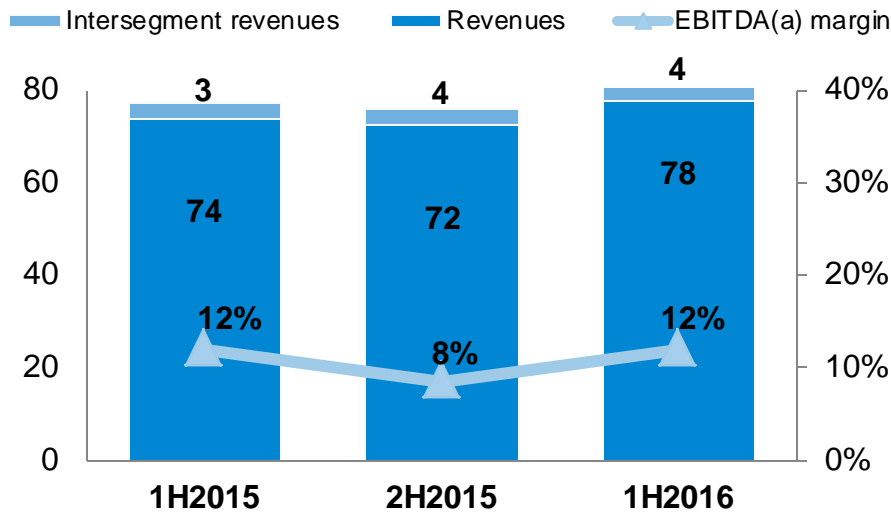
EBITDA



STEEL SEGMENT

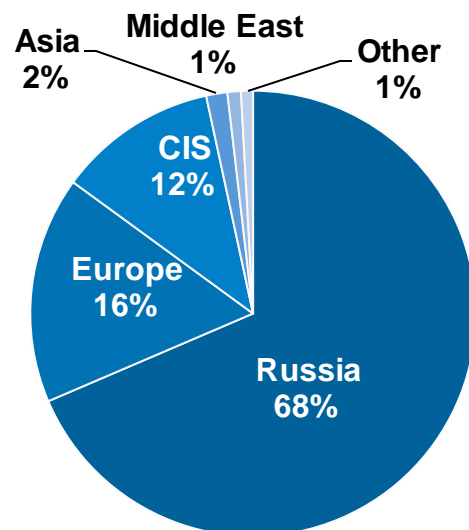


REVENUE, EBITDA

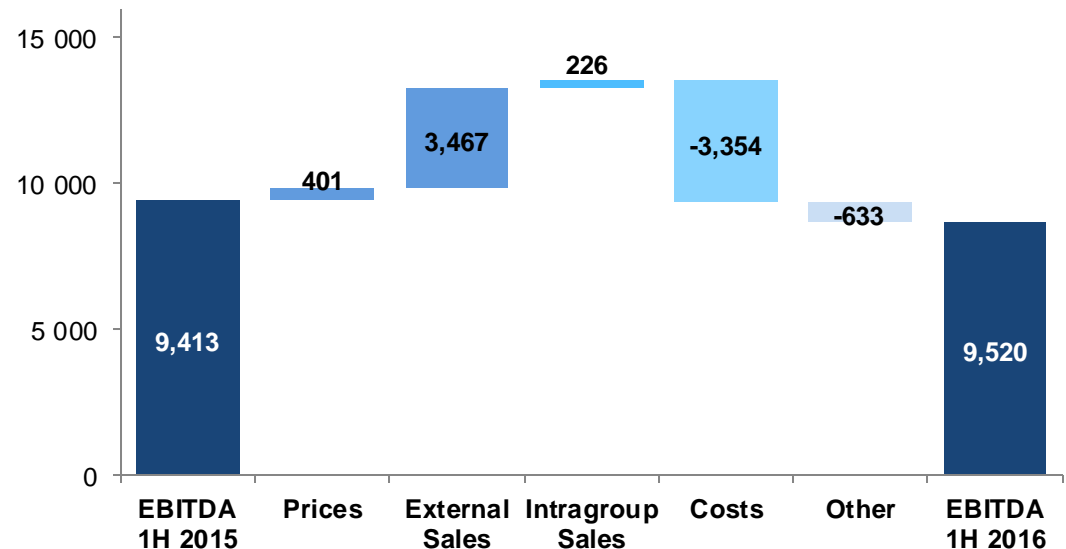


- **83% of sales from Russian steel plants is dedicated for domestic market**
- Most part of **European sales** comes from distribution business of **Mechel Service Global** through its **warehouses**
- **Production Cash costs** for almost all product range **remain stable**
- Further utilization of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

REVENUE BREAKDOWN BY REGIONS



EBITDA



1H 2016 FINANCIAL RESULTS SUMMARY

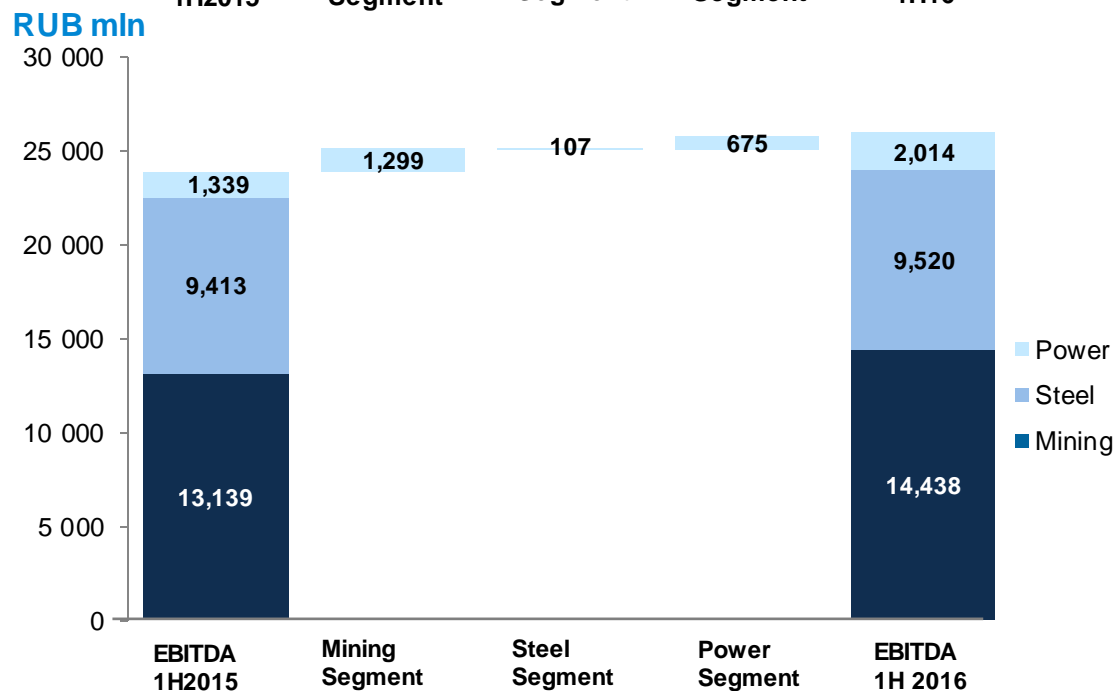
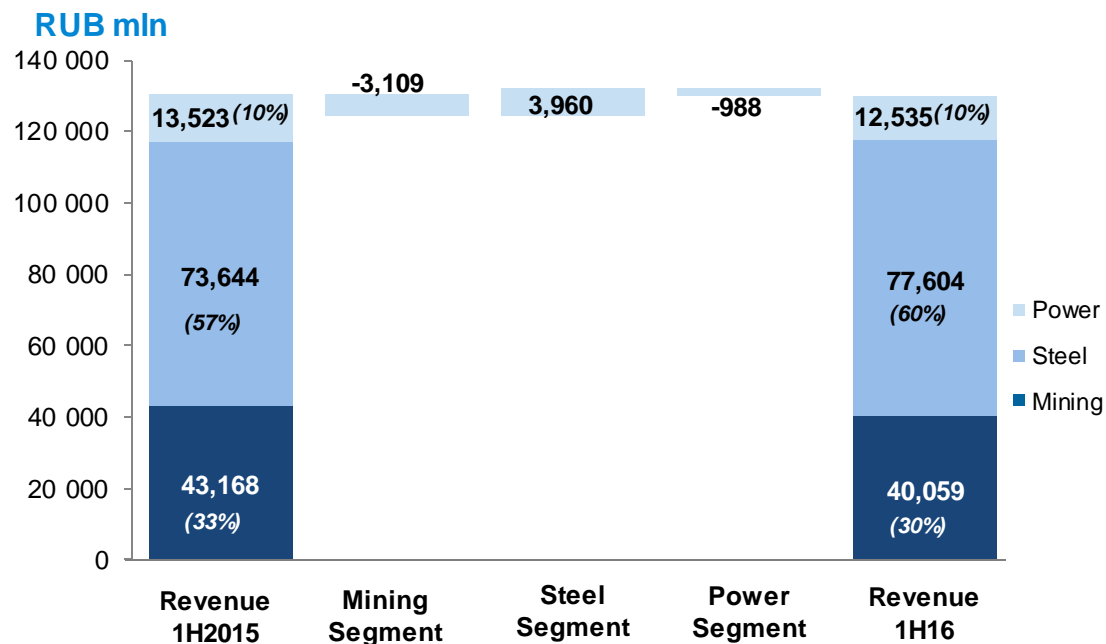


RUB mln	1H 2016	1H 2015	%
Revenue	130,197	130,334	0%
Operating profit	17,200	13,945	23%
EBITDA	25,721	23,602	9%
EBITDA margin, %	20%	18%	
Net profit / (loss) attributable to shareholders of Mechel PAO	8,300	(16,746)	

- **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

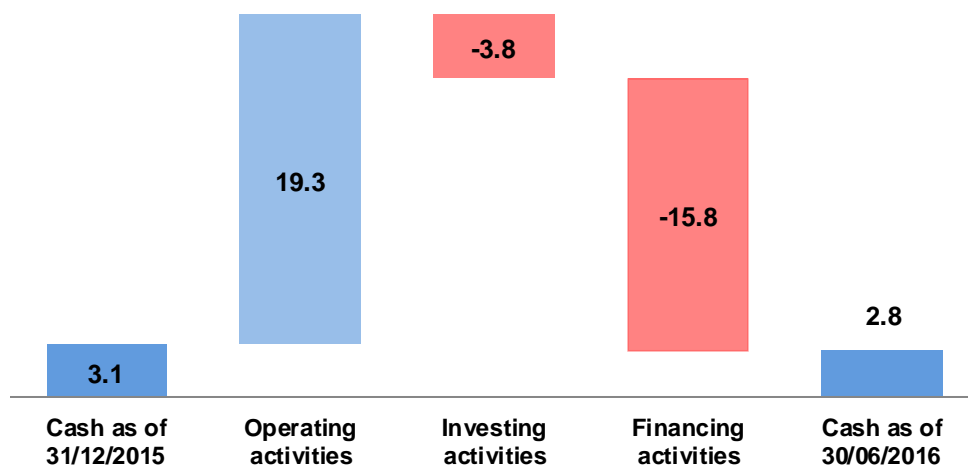


- Mining segment Revenue to 3rd parties decreased by 7% H-o-H on lower coal prices and softer PCI and Anthracites demand
- Steel segment is a major contributor to Consolidated Revenue. After its 3rd party Revenue increased by 5% on better sales volumes and prices H-o-H, its share increased from 57% to 60%
- Power segment 3rd 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

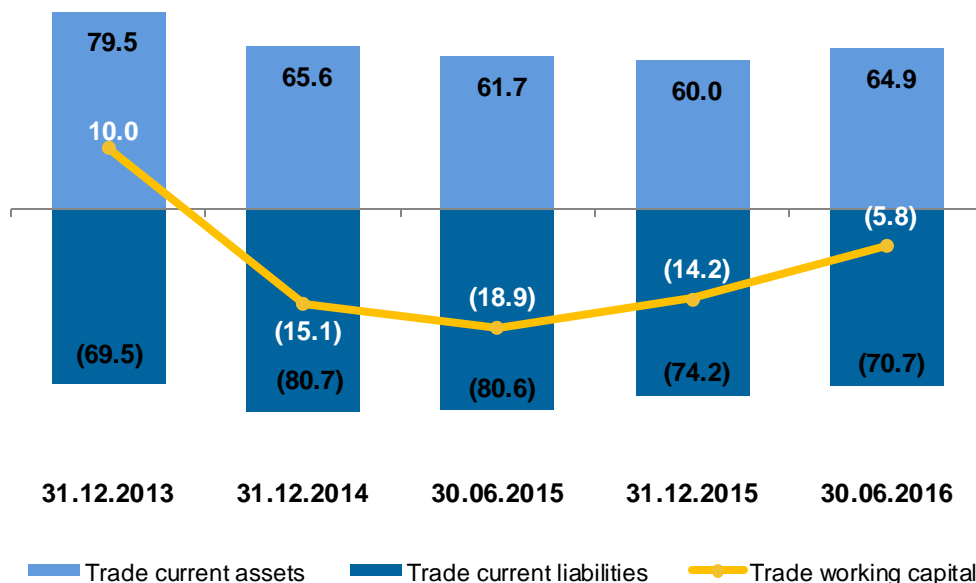


CASH FLOW, RUB BLN

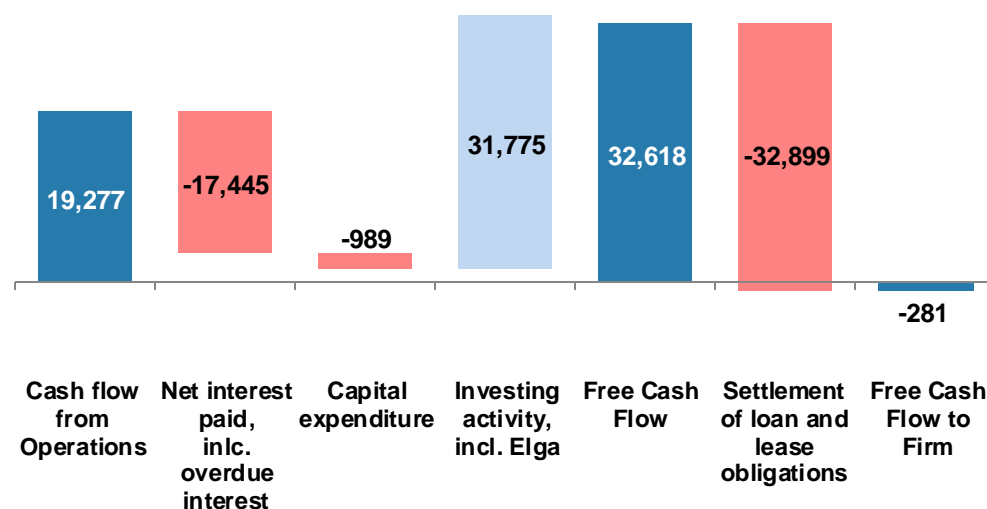


- **Operating activities** almost completely **cover needs for financing investing and financing activities** even though first quarter of 2016 was quite challenging as prices for steel and coal were on their lows levels
- **Trade working capital** demonstrates further improvement with **increase by 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**

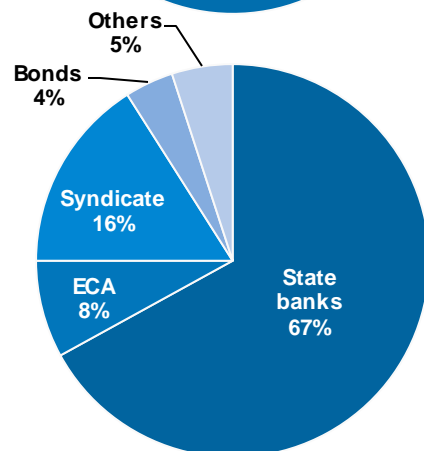
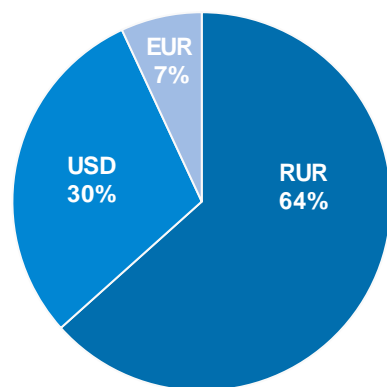
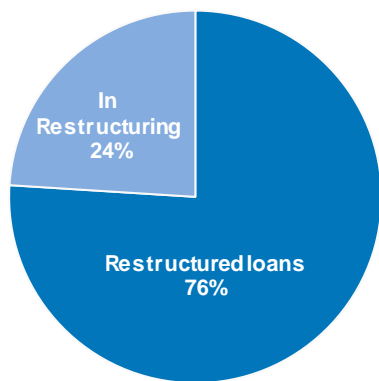
TRADE WORKING CAPITAL MANAGEMENT, RUB BLN



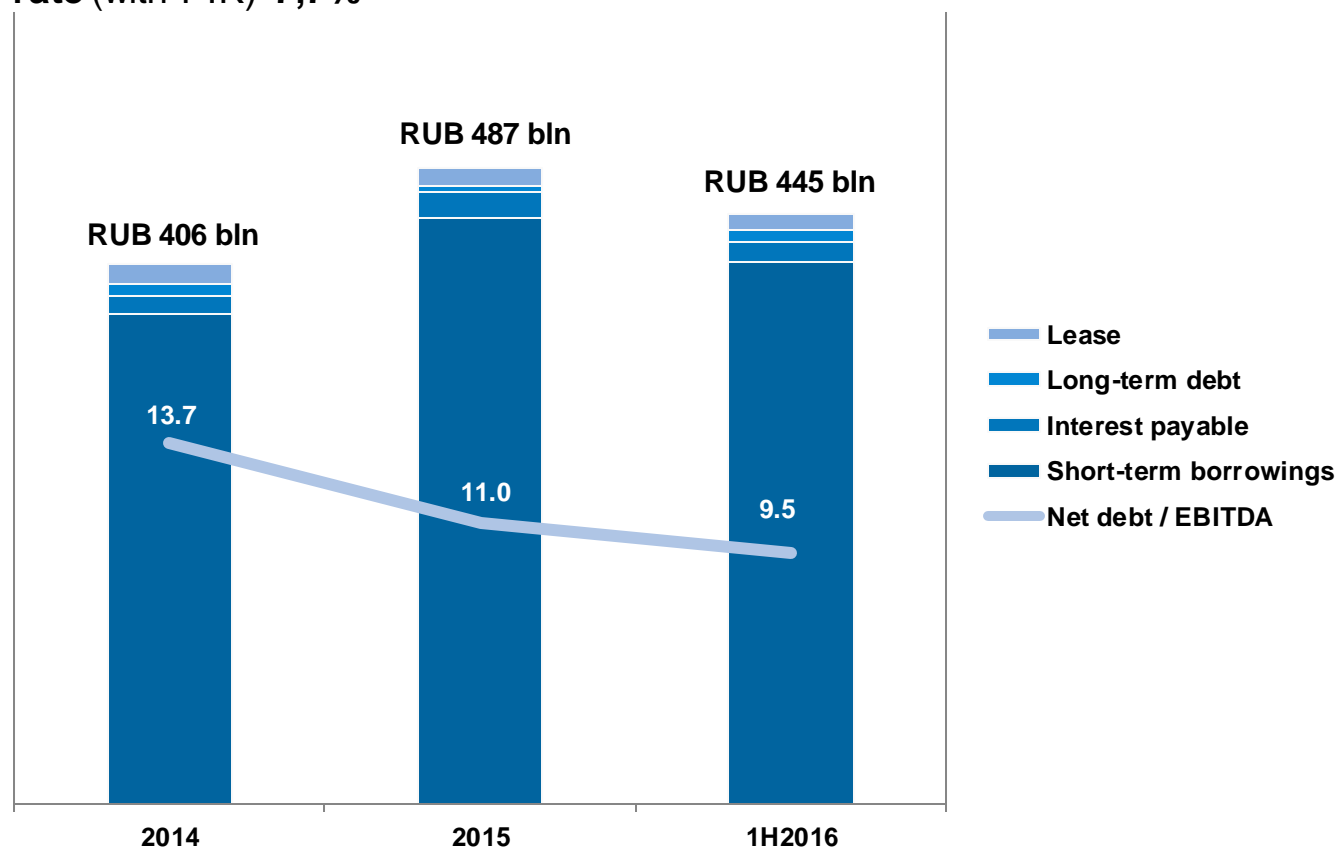
FREE CASH FLOW, RUB MLN



DEBT STRUCTURE & NET DEBT / EBITDA RATIO DYNAMICS



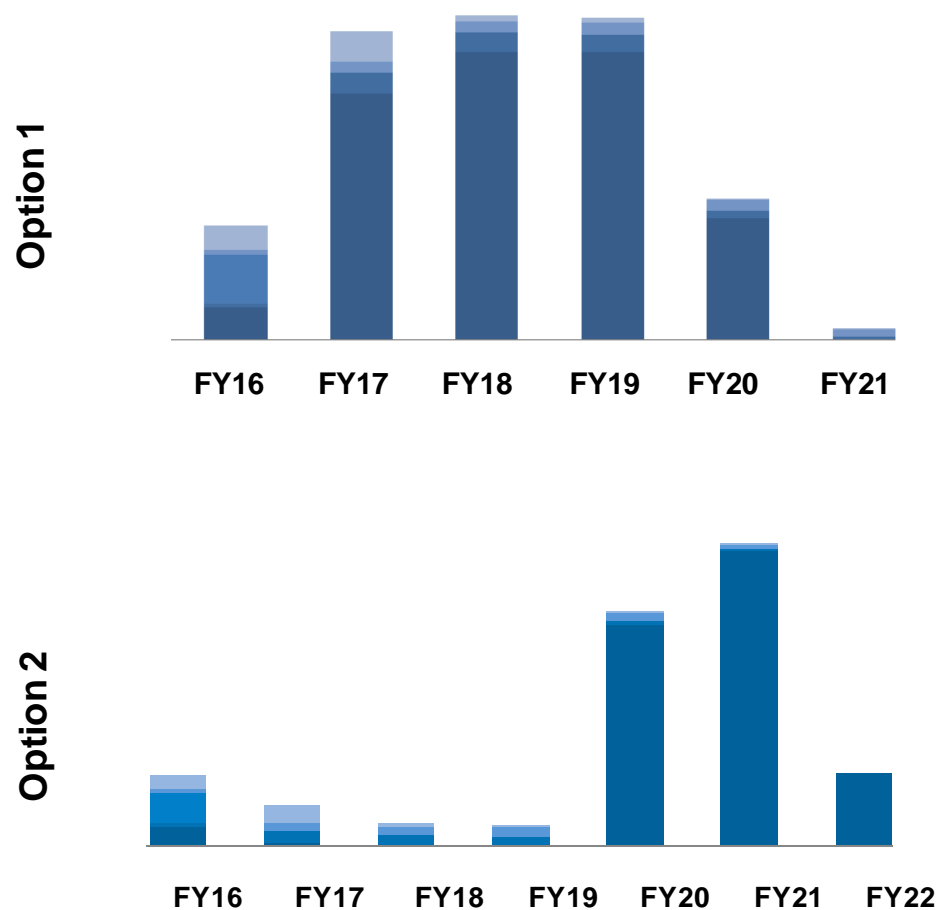
- As of August 2016 - **76% of Group's debt is restructured**; ruble portion amounts to **64%**; and **state banks hold 67%** of our debt portfolio.
- Due to partial debt repayment (32.9 bln RUB) and EBITDA increase (up to 46.6 bln RUB for the previous 12 months) **net leverage is consistently decreasing**
- **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

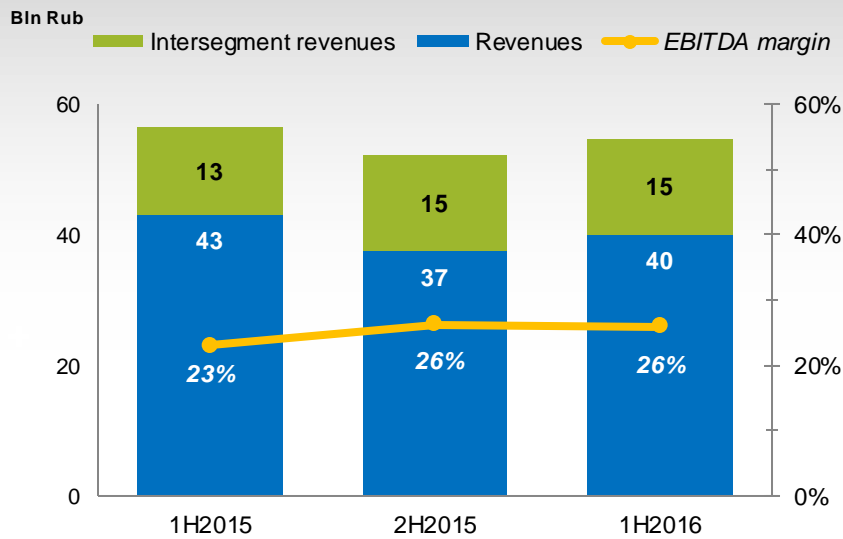
Banks have agreed to waive the accrued penalties and fines after repayment of overdue interest

APPENDIX

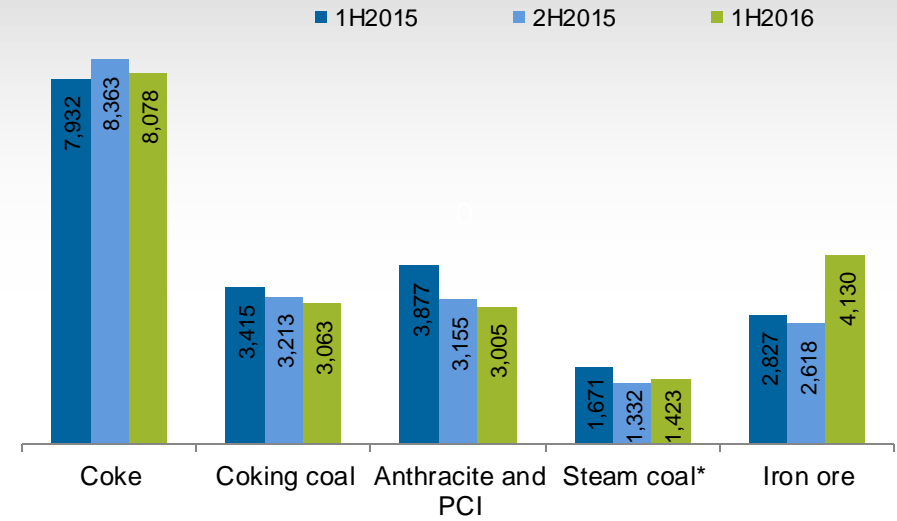
MINING SEGMENT



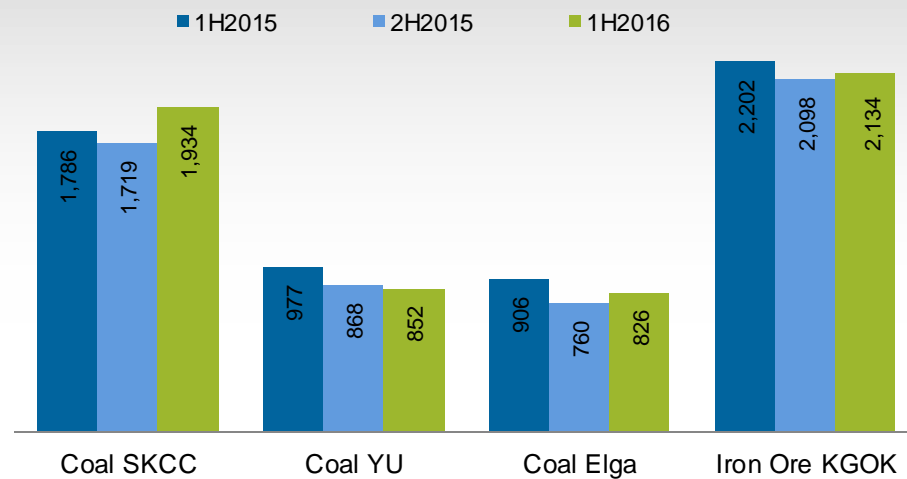
REVENUE, EBITDA



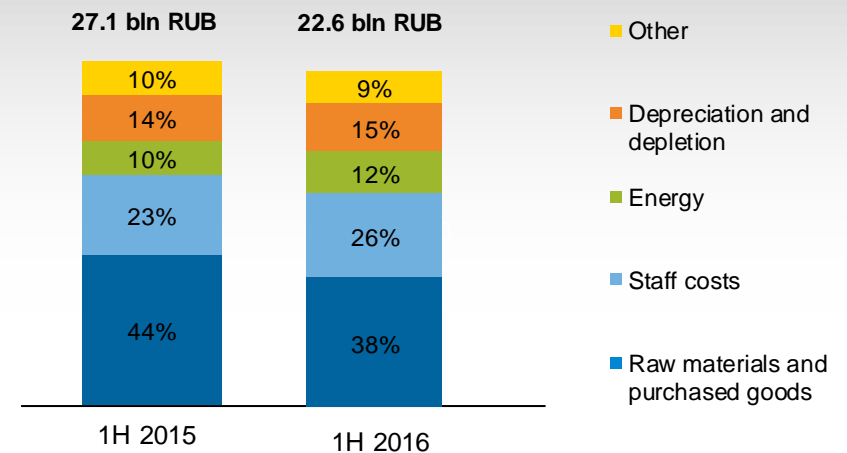
AVERAGE SALES PRICES FCA, RUB/TONNE



CASH COSTS, RUB/TONNE



COS STRUCTURE

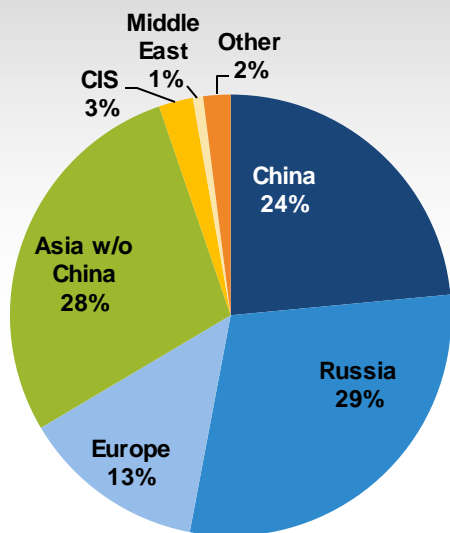


MINING SEGMENT

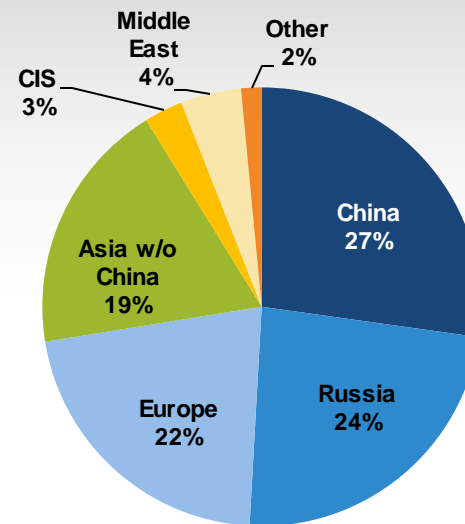


REVENUE BREAKDOWN BY REGIONS

1H 2016

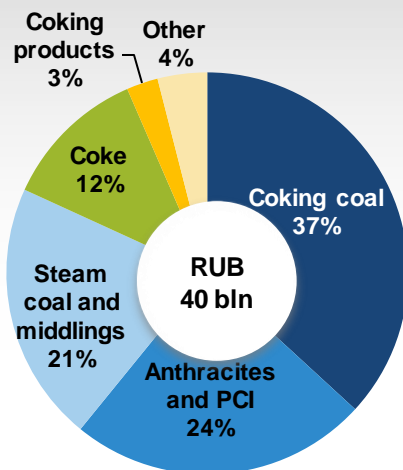


1H 2015

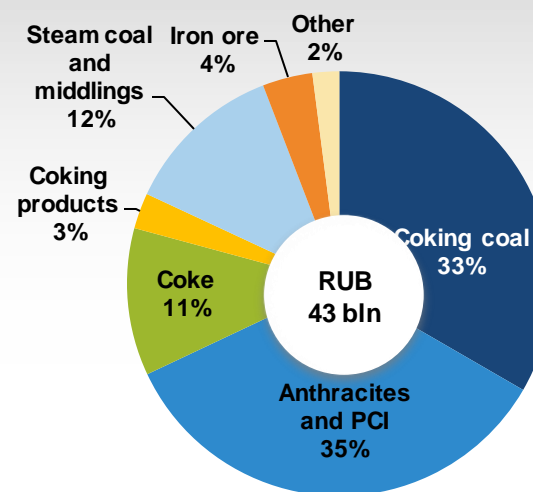


REVENUE BREAKDOWN BY PRODUCTS

1H 2016



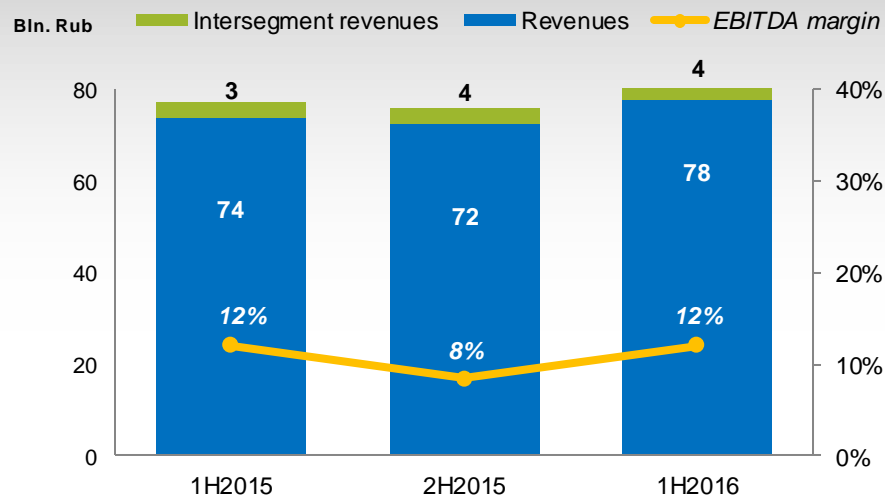
1H 2015



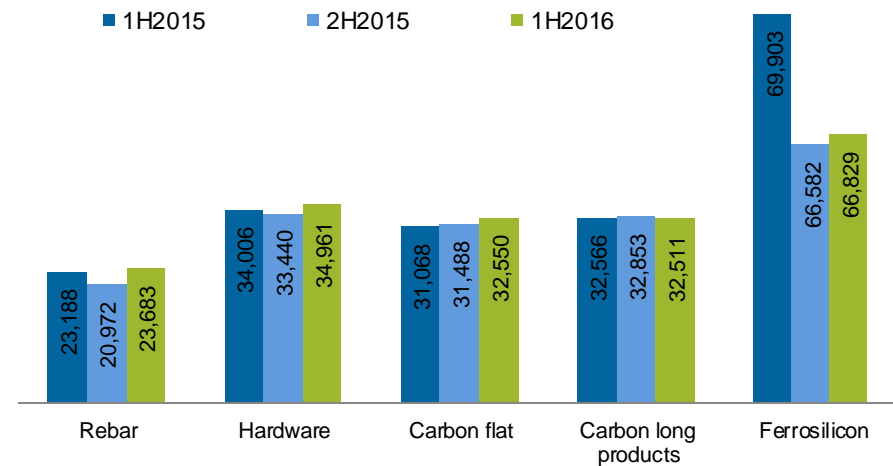
STEEL SEGMENT



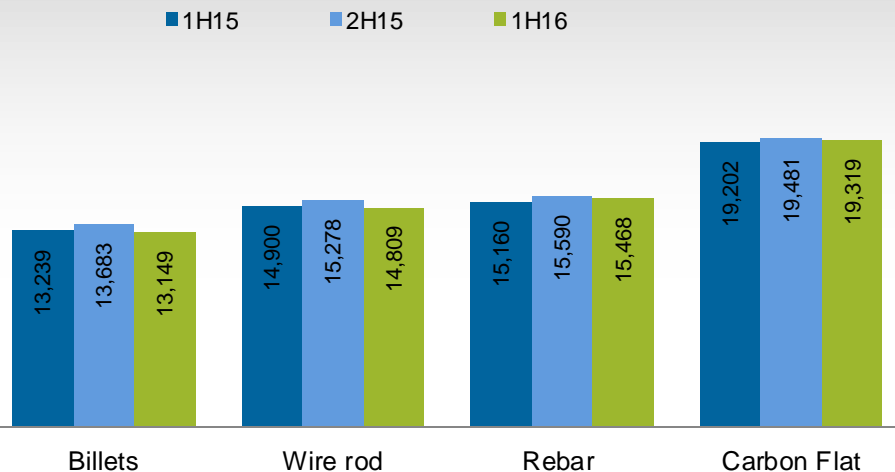
REVENUE, EBITDA



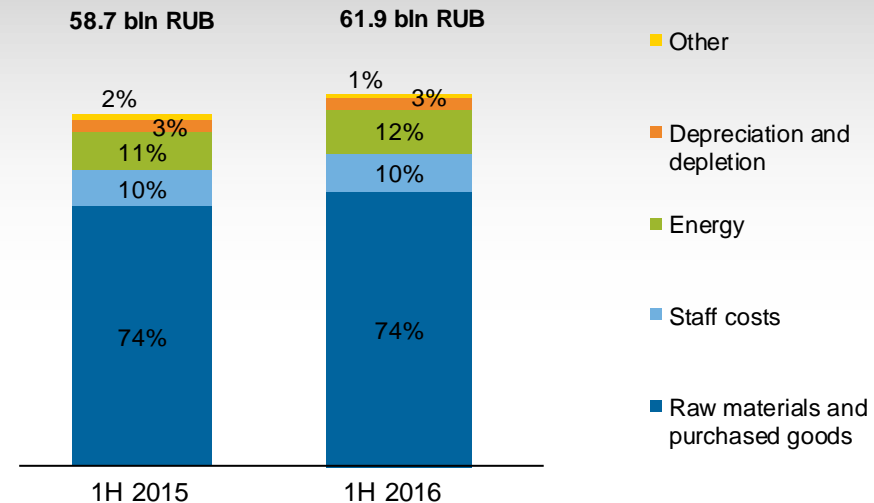
AVERAGE SALES PRICES FCA, RUB/TONNE



CASH COSTS, RUB/TONNE



COS STRUCTURE

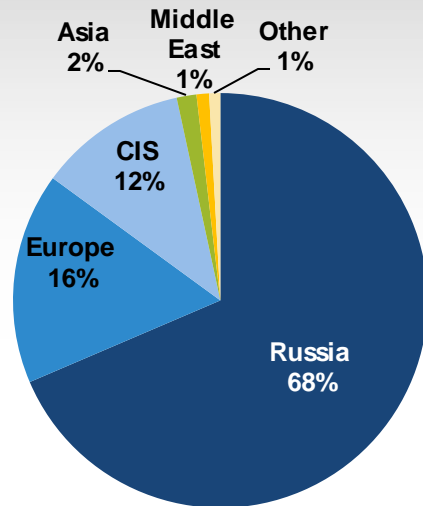


STEEL SEGMENT

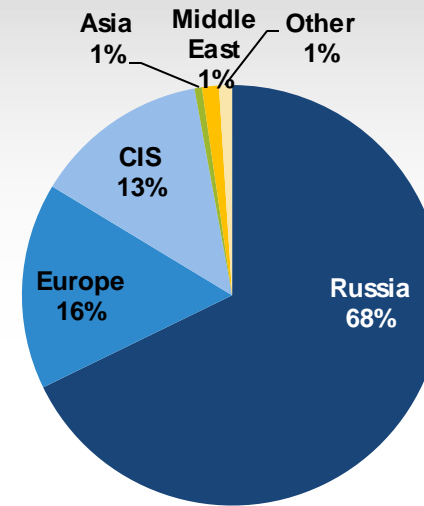


REVENUE BREAKDOWN BY REGIONS

1H 2016

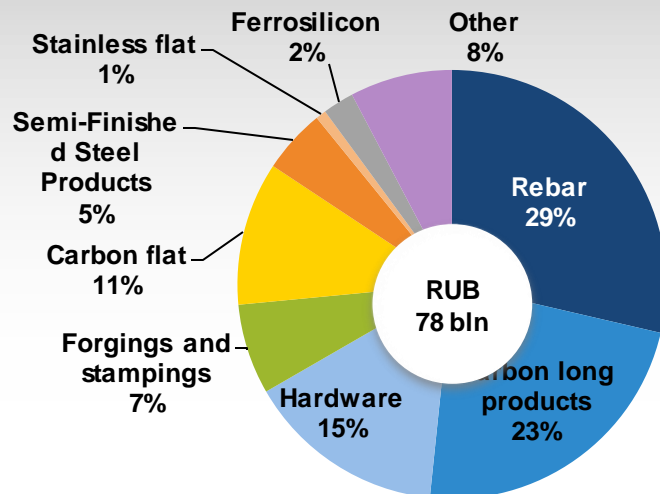


1H 2015

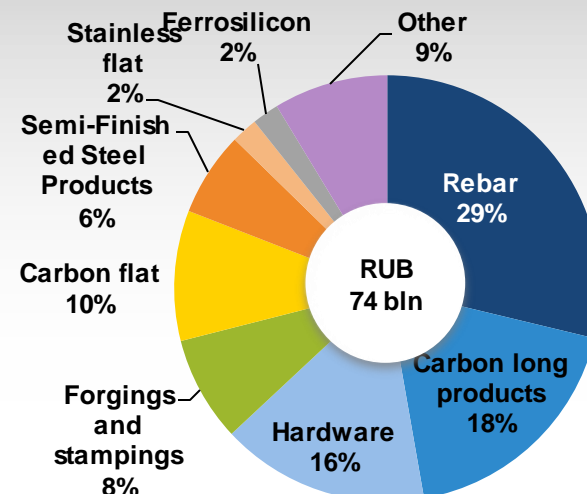


REVENUE BREAKDOWN BY PRODUCTS

1H 2016



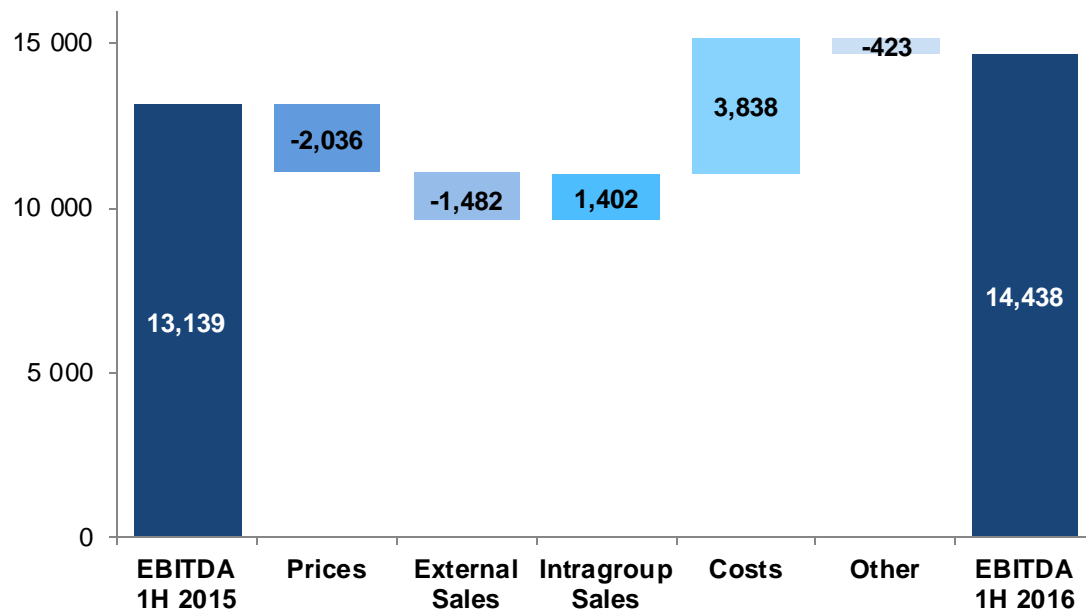
1H 2015



MINING AND STEEL EBITDA DYNAMICS

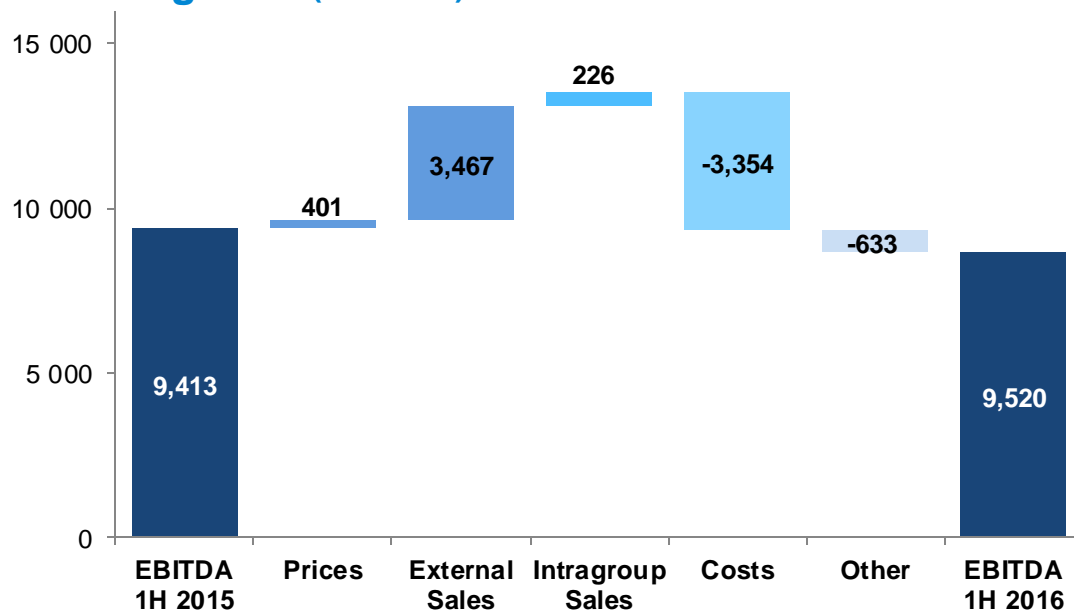


Mining segment (RUB mln)



- 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

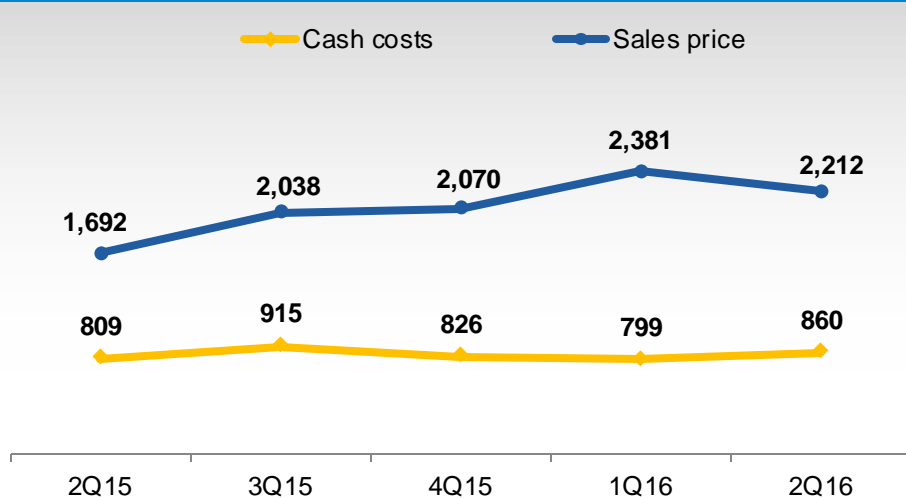
POWER SEGMENT



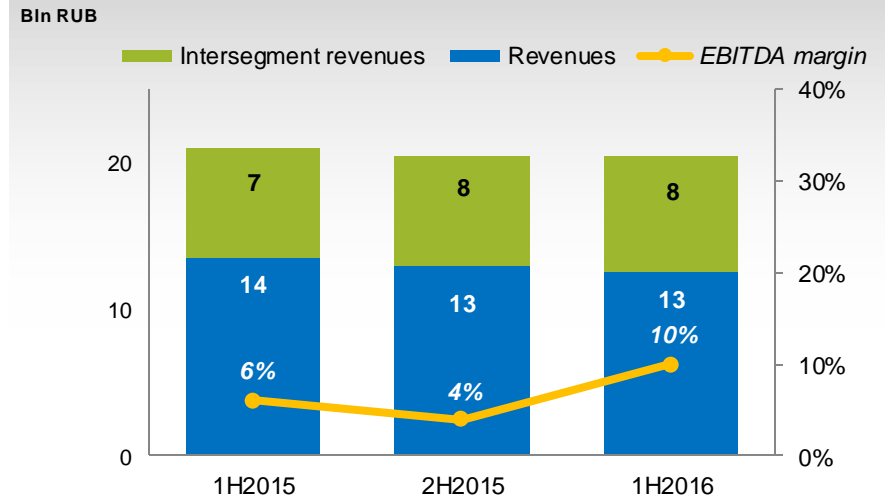
Revenue from external customers decreased by 7% on additional equipment repair operations. Intersegment Revenue was flat

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

