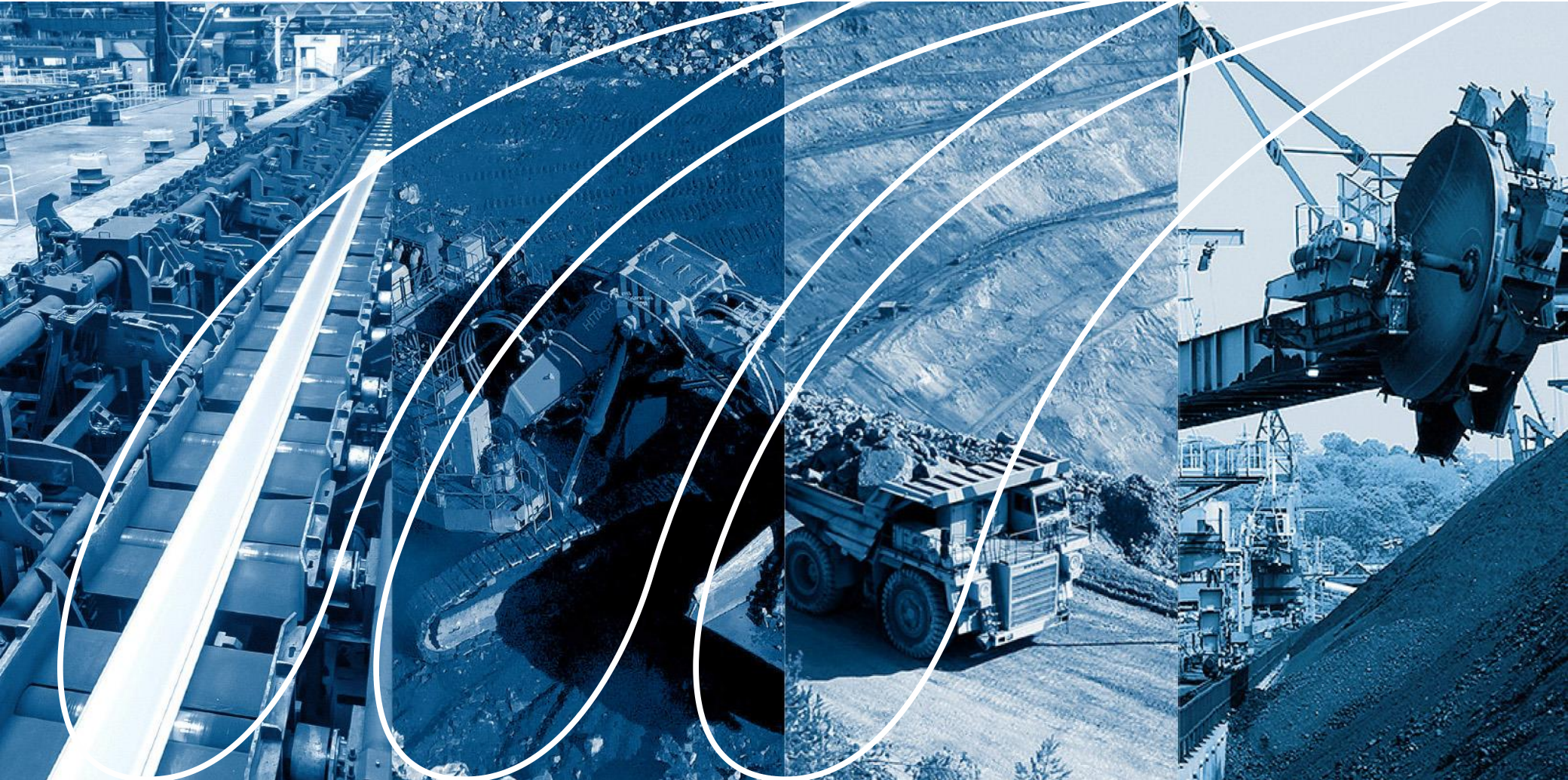


# 1Q 2017 RESULTS PRESENTATION

May 31, 2017





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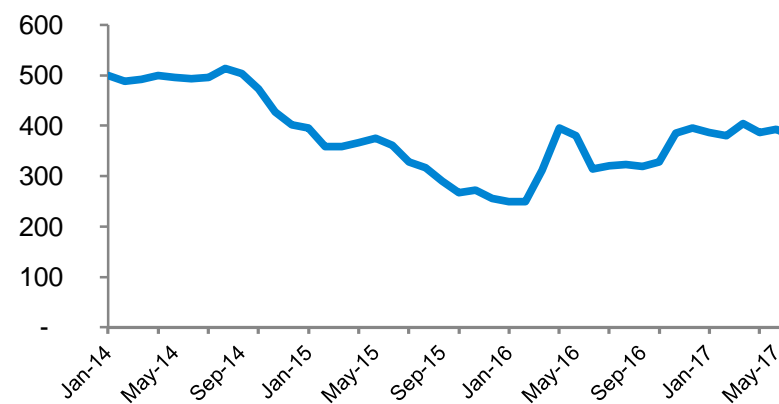
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# Key market drivers



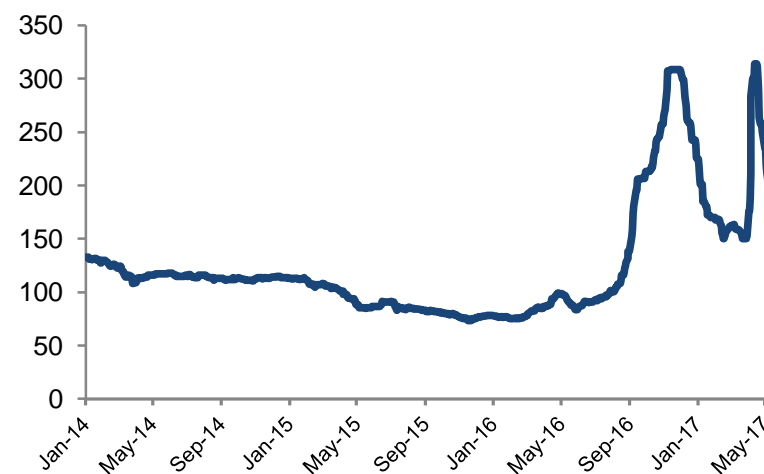
- In response to significant coking coal price growth in the end of 2016 most coal producers in the US, Canada, Russia and Australia took an opportunity to increase their coal supplies to the market. Changes in Chinese coal mining volumes regulation policies led to intensification of competition on the market.
- In the 1Q2017 hard coking coal spot prices declined to \$150-170 per tonne from over \$300 per tonne in November-December 2016.
- Benchmark price for the 1Q2017 was \$285 that was higher than \$200 for the 4Q2016. In general pricing environment for coal producers in the 1Q2017 was supportive.
- Tropical cyclone Debbie has destroyed railway infrastructure in one of the largest coal mining regions of Australia, that led to breaches of coal supplies and spot prices again spiked to over \$300 per tonne levels at the beginning of 2Q2017.
- Iron ore prices in the 1Q2017 has demonstrated growth supported by an increase of steel prices. But with downward steel prices movements in the 2Q2017 iron ore prices started to decrease.

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



Source: Metal Courier

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



Source: Bloomberg



# KEY FINANCIAL RESULTS

Sergey Rezontov – Chief Financial Officer



# 1Q 2017 Financial results summary



- Consolidated Revenue amounted to 77.4 bln RUB, decrease by 3% in 1Q2017 compared to 4Q2016, due to Mining division Revenue decline.
- EBITDA\* decreased by 7% compared to 4Q2016 and amounted to 22.8 bln RUB with EBITDA margin 29%, due to decline of Revenue and increase of costs in steel segment at a higher raw material prices (iron ore).
- Group generated Net profit attributable to shareholders of Mechel PAO of 13.9 bln RUB vs 1.6 bln RUB in 4Q2016.

RUB mln	1Q17	1Q16	%	1Q17	4Q16	%
<b>Revenue</b>	77,414	62,232	24%	77,414	79,659	-3%
<b>Operating profit</b>	18,089	6,333	186%	18,089	13,929	30%
<b>EBITDA*</b>	22,806	9,974	129%	22,806	24,593	-7%
<b>EBITDA margin, %</b>	29%	16%		29%	31%	
<b>Net profit</b> attributable to equity shareholders of Mechel PAO	13,902	312		13,902	1,579	

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



# 1Q 2017 Production and sales summary



- Lower coal mining volumes became a result of increased share of stripping works execution in order to secure future mining volumes.
- Production of pig iron and steel was at a stable level compared to the previous quarter.

- Coking and steam coal sales decline in 1Q2016 was a result of lower mining volumes and redirection of some coal volumes from export sales to internal consumption.
- PCI and Antracites sales volumes increased on high demand from Asian consumers.
- Flat products sales went up by 7% compared to 4Q2016 on higher demand and product-line expansion.
- Long products sales slightly decreased on seasonal factor (low construction season).

## Production (th tonns)

Product	1Q17	1Q16	%	1Q17	4Q16	%
<b>Run-of-mine Coal</b>	5,074	5,663	-10	5,074	5,596	-9
<b>Pig Iron</b>	1,046	1,005	+4	1,046	1,041	+1
<b>Steel</b>	1,121	1,042	+8	1,121	1,125	0

## Sales (th tonns)

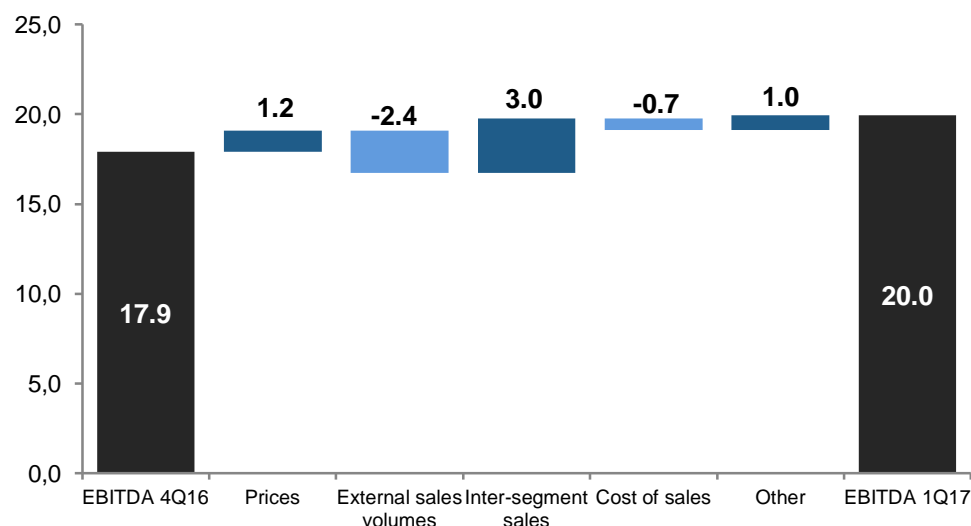
Product	1Q17	1Q16	%	1Q17	4Q16	%
<b>Coking Coal</b>	1,996	2,221	-10	1,996	2,172	-8
<b>Steam Coal</b>	1,589	1,713	-7	1,589	1,633	-3
<b>Flat Products</b>	153	128	+20	153	143	+7
<b>Long Products</b>	705	733	-4	705	732	-4

# Mining segment

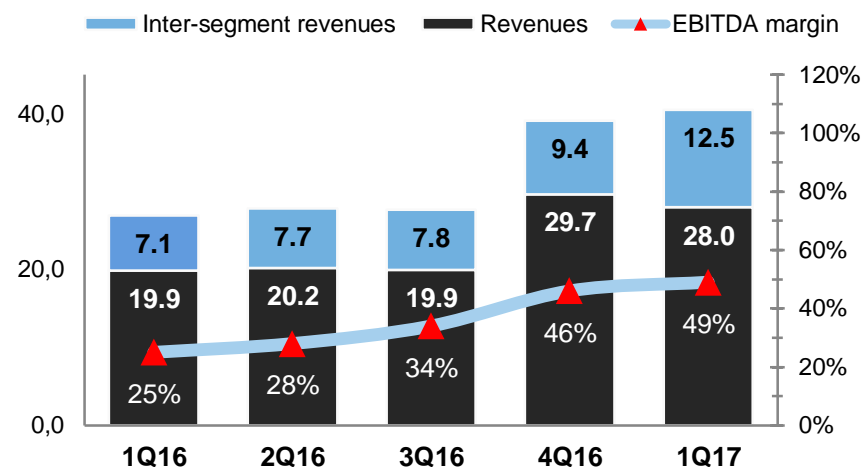


- Sales structure by regions remained almost unchanged compared to the previous quarter with Asian markets being the most important for the coal sales.
- High prices were the main factor of EBITDA growth by 11% compared to 4Q2016 which reached 20.0 bln rubles with EBITDA margin 49%.
- Share of domestic and inter-segment coking coal sales increased in the 1Q2017 vs 4Q2016 after export markets lost part of their price advantages.
- All volumes of iron ore concentrate produced by Korshunov Mining Plant were consumed internally.

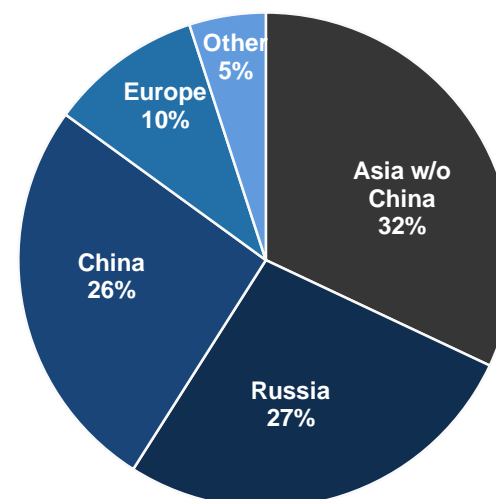
## EBITDA, RUB Bln



## Revenue, EBITDA margin, RUB Bln



## Revenue breakdown by regions

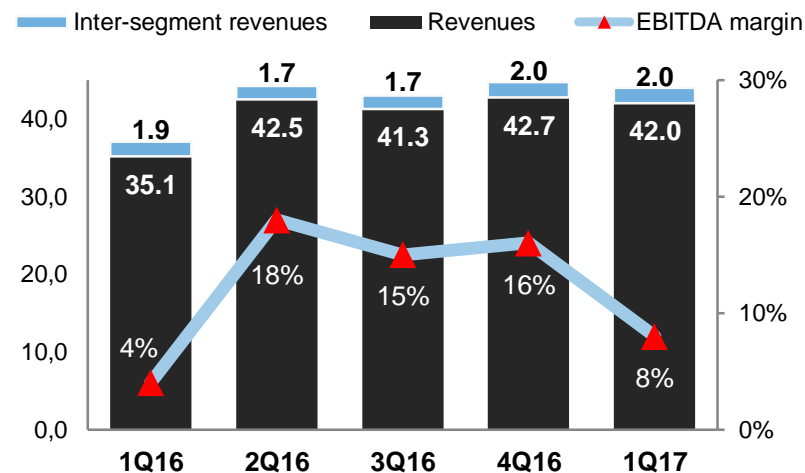


# Steel segment

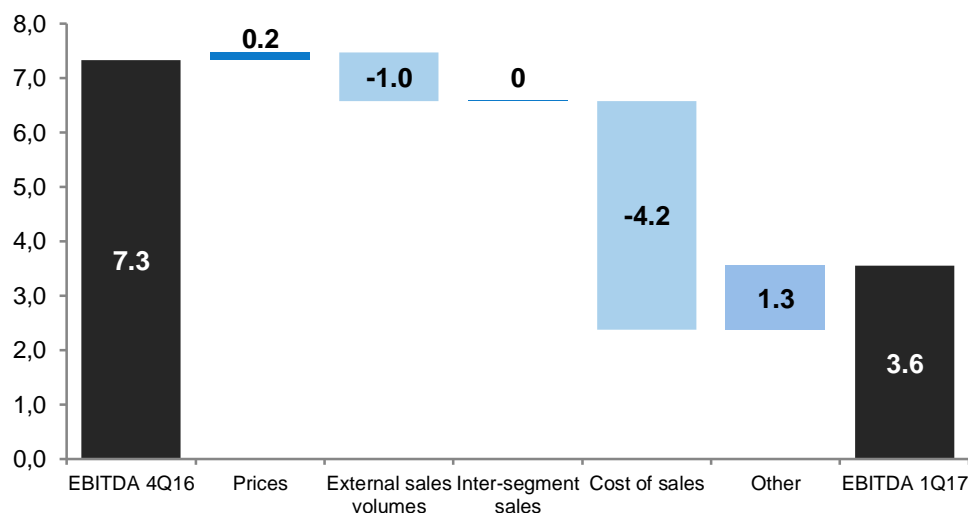


- Domestic Russian and CIS markets are most important for our steel division with their share amounting to 85% of segment revenue.
- EBITDA decrease was a result of slightly lower sales volumes and significant growth of costs including inter-segment reallocation of profits.
- Higher costs were primarily result of higher raw materials prices.
- Approaching construction season should support sales volumes and prices for steel products.

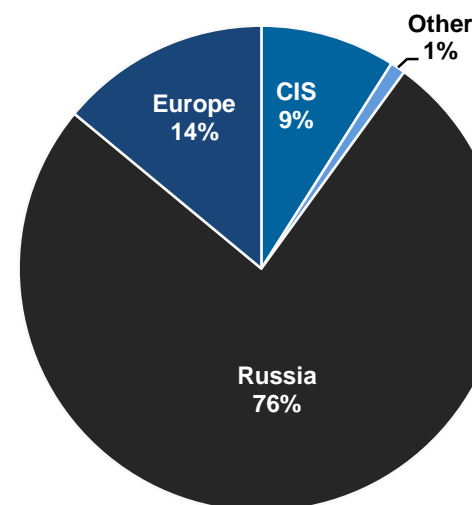
## Revenue, EBITDA margin, RUB Bln



## EBITDA, RUB Bln



## Revenue breakdown by regions



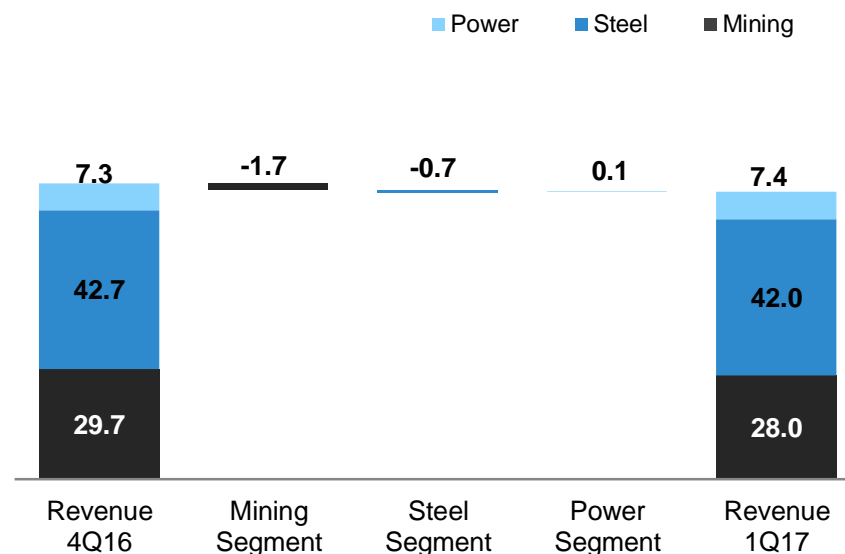


# Consolidated revenue and EBITDA dynamics

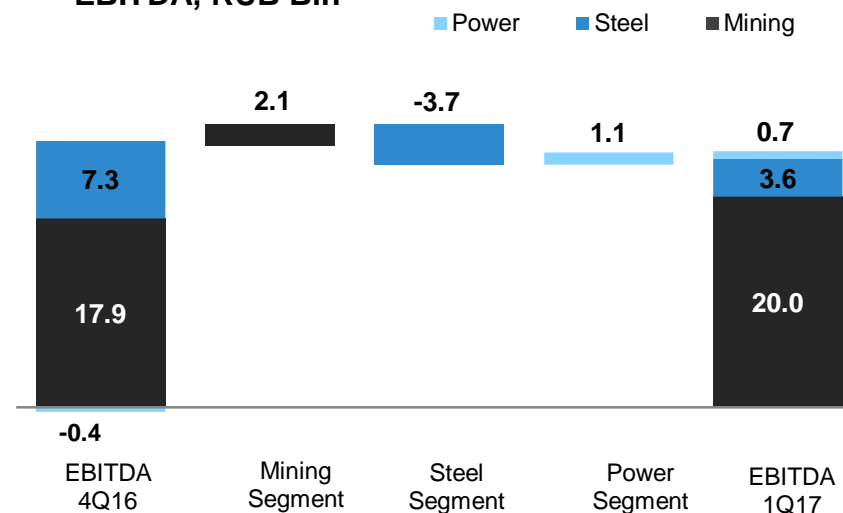


- Mining segment Revenue to 3<sup>rd</sup> parties in 1Q2017 decreased by 6%, compared to 4Q2016 on lower sales volumes to third parties.
- Steel segment Revenue demonstrated a minor decrease of 2% on seasonal market weakness.
- Power segment 3<sup>rd</sup> party Revenue traditionally increased as winter season implies higher heat and electricity consumption.
- Mining segment EBITDA increased by 11% compared to 4Q2016 mostly due to high coal prices and amounted to 20.0 bln RUB.
- Steel segment EBITDA lost 51% on higher costs arose from high raw materials prices and amounted to 3.6 bln RUB.
- Power segment EBITDA became positive and amounted to 0.7 bln RUB.

Revenue, RUB Bln



EBITDA, RUB Bln

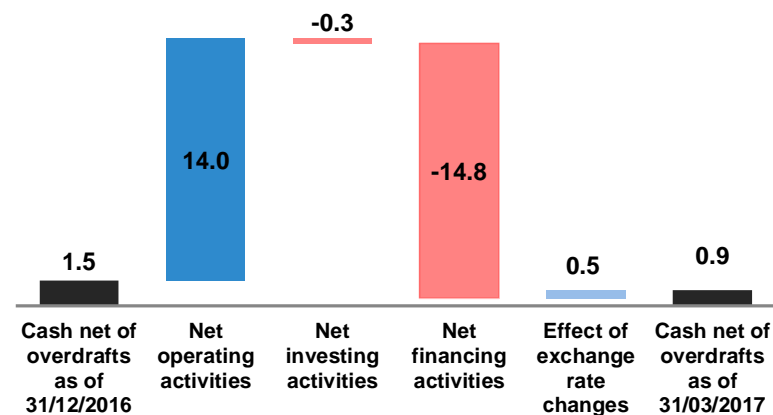


# Cash flow & trade working capital

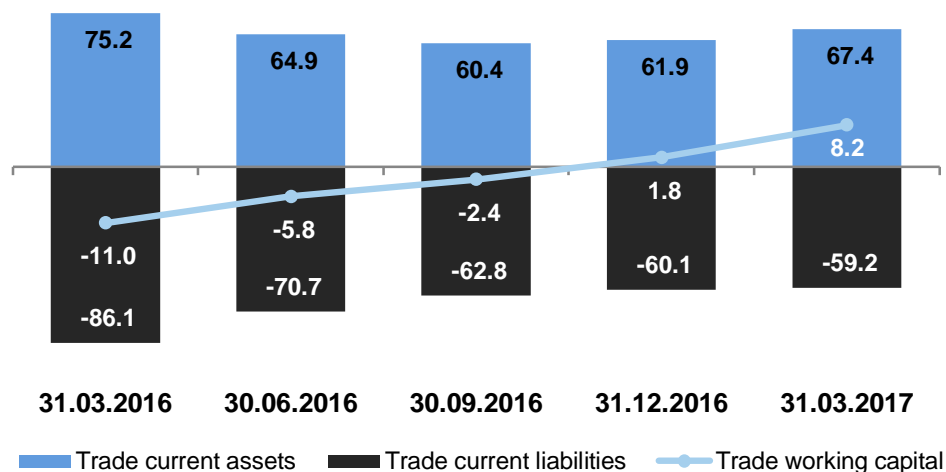


- Cash flow from operations to a large extent covers Group's current expenses.
- Through the reporting period the group continued to improve working capital and the accumulated a trade surplus of RUB8.2bln at the end of the period.
- Group's capital expenditures for the 1Q2017 amounted to 2.2 bln rubles, including 1.1bln rubles of leasing payments.

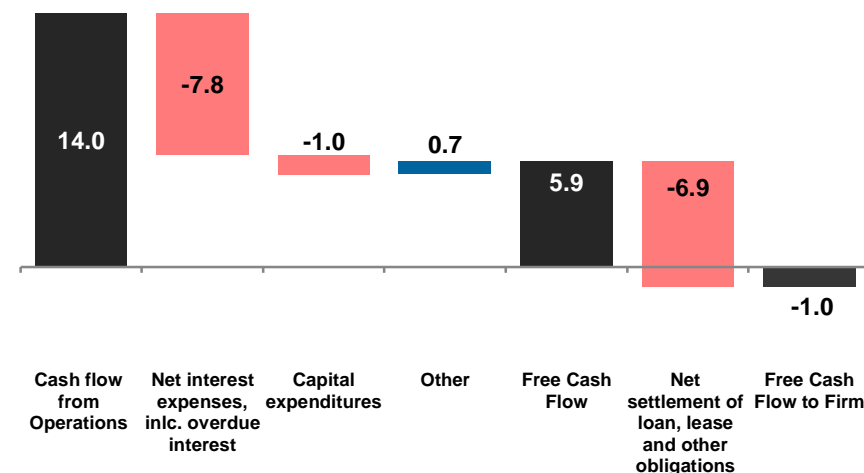
## CASH FLOW, RUB Bln



## Trade working capital management, RUB Bln



## FREE CASH FLOW for 1Q 2017, RUB Bln



# Key projects results



## Universal rolling mill on Chelyabinsk metallurgical plant

- From January 2016 Mechel started supply of rails to Russian Railways.
- Total sales volume during FY2016 exceeded 500 th tonnes, including about 300 th tonnes of rails to Russian Railways.
- Steady ramp up of Universal rolling mill capacity utilization quarter by quarter in 2016 resulted in threefold growth of production volumes if compared to FY2015.
- Universal rolling mill capacity utilization in 2016 reached almost 50% and in 2017 it is expected to exceed 65%.
- Universal rolling mill total production since the launch of operations reached 1 million tonnes in January 2017.
- Technology for new types of rails production (for use at European railways) is being currently adopted.

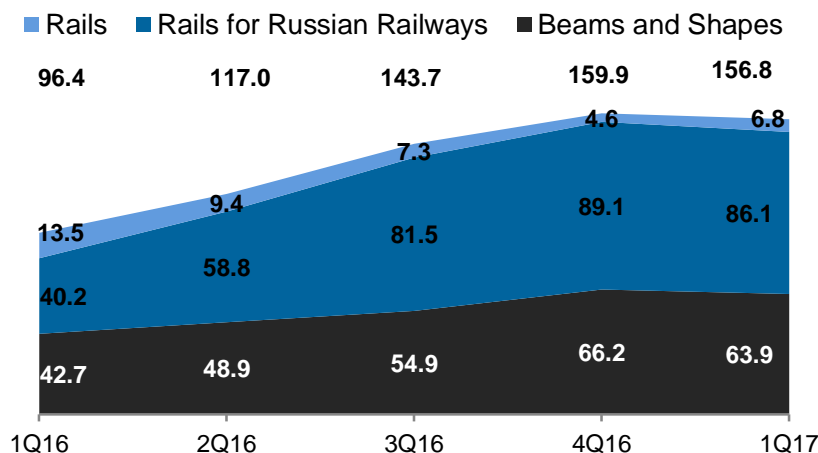
## Elga coal project development

- Plan for 2017 is 4.5 mln tonnes of coal.
- In 1Q2017 share of coking coal in total mining volumes reached almost 85%.

## Universal rolling mill production (th tonnes)

Product	1Q17	1Q16	%	1Q17	4Q16	%
<b>Rails, beams and shapes</b>	157	96	+63	157	160	-2

## Universal rolling mill Production in FY 2016 – 1Q 2017 (th tonnes)



## Elga Coal Complex (th tonnes)

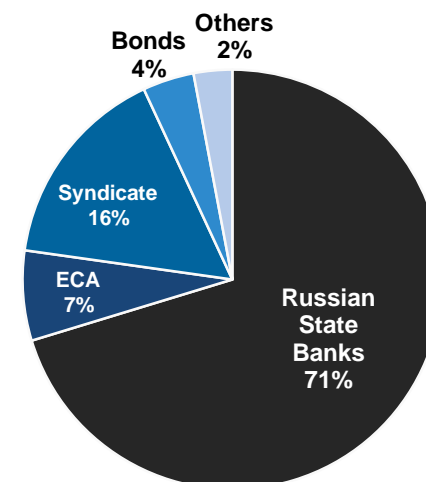
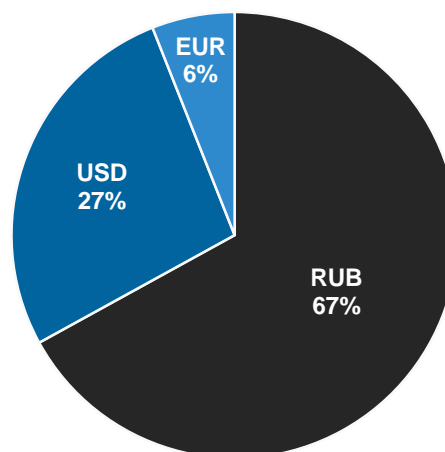
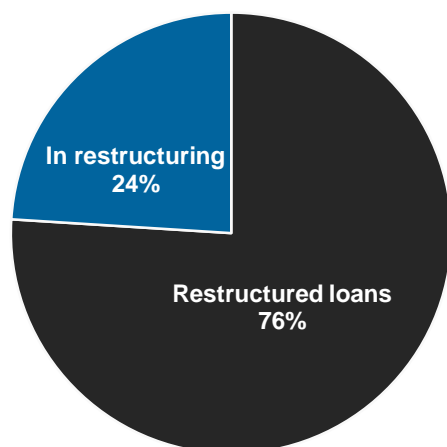
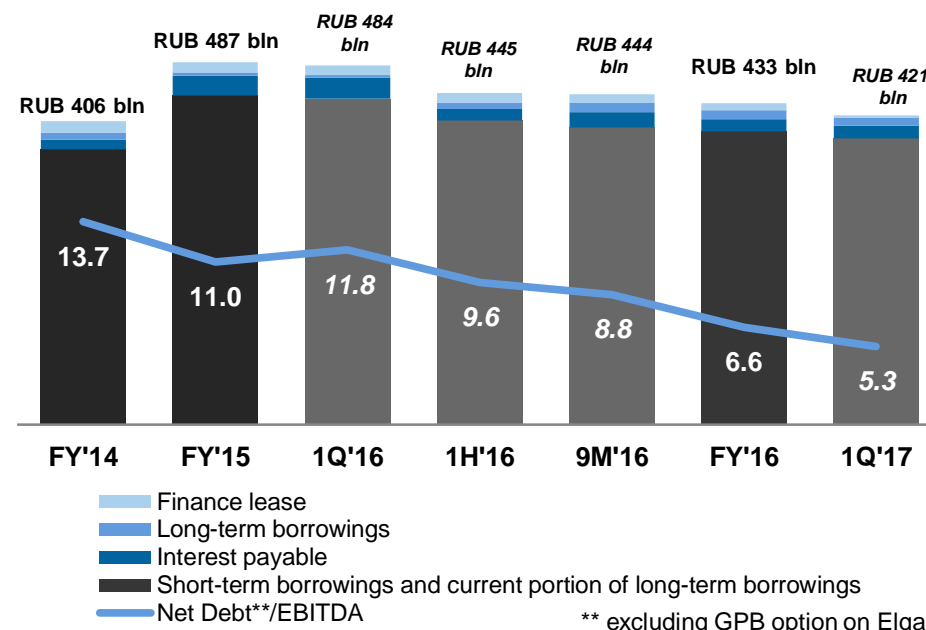
Product	1Q17	1Q16	%	1Q17	4Q16	%
<b>Run-of-mine coal</b>	837	993	-16	837	842	-1

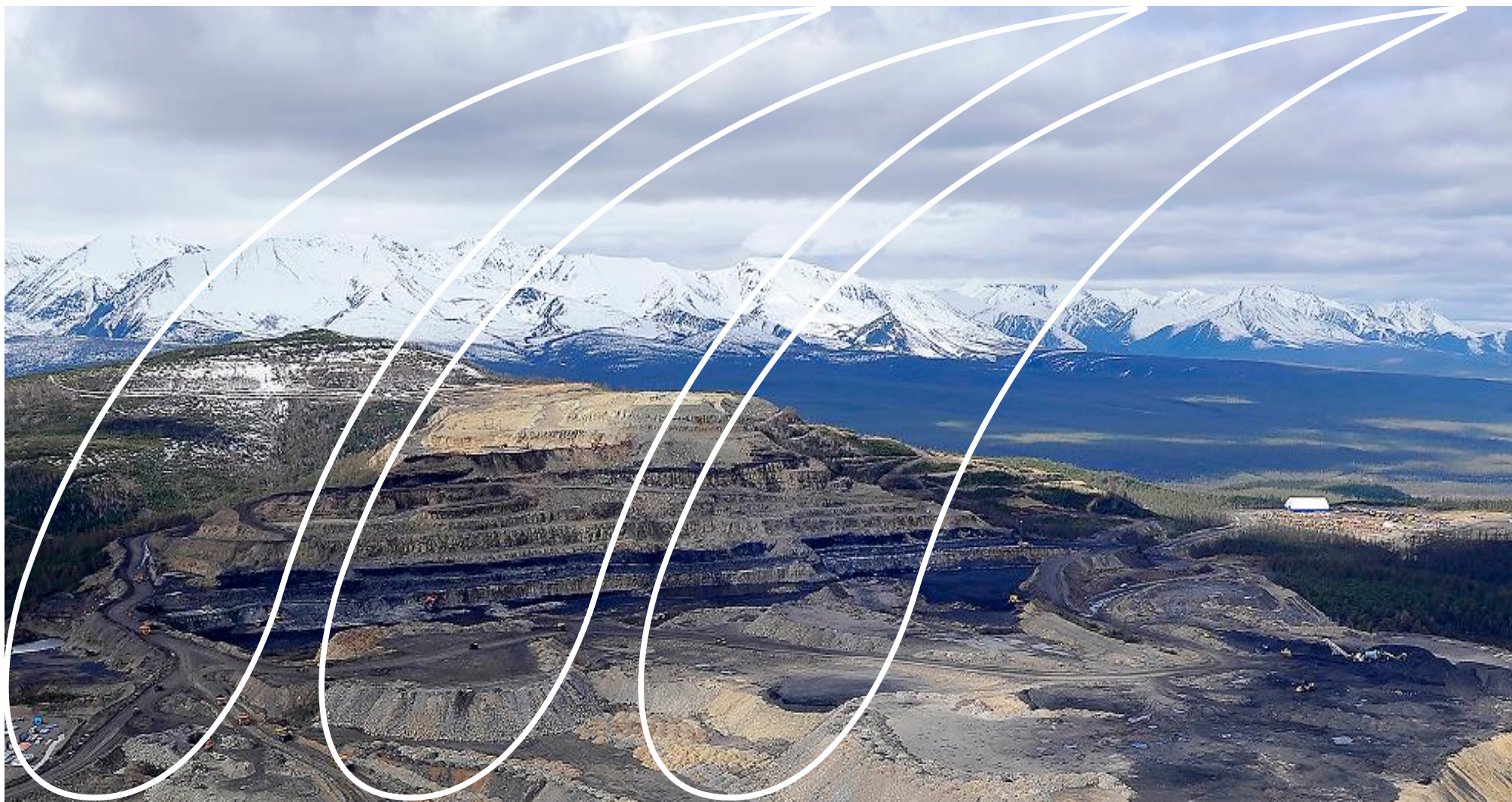


# Debt structure & net debt / EBITDA ratio dynamics

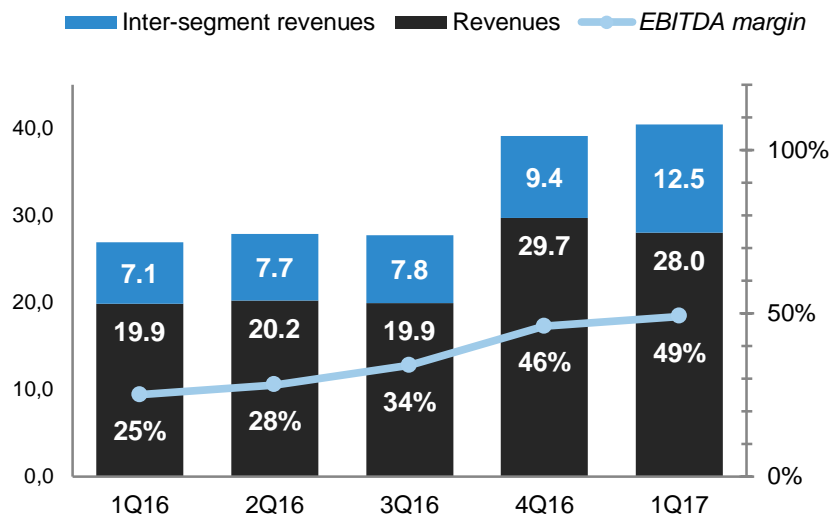


- As of the date of financial release - 76% of Group's debt has been restructured; ruble portion of debt amounts to 67%; and Russian state banks hold 71% of our debt portfolio.
- New repayment schedules with Russian state banks came into force in the middle of April 2017, which assumes grace period till 1Q-2Q20 and equal monthly repayment till 2Q22.
- EBITDA growth led to net further leverage decrease from 6.6\*\* as of December 31, 2016 to 5.3\*\* as of March 31, 2017.
- Average interest rate through debt portfolio as of May 2017 is 9.4% per annum and it trends to lower as most Ruble denominated loans rate is linked to Central bank key interest rate; average paid interest rate (with PIC) amounts to 7.8% per annum.

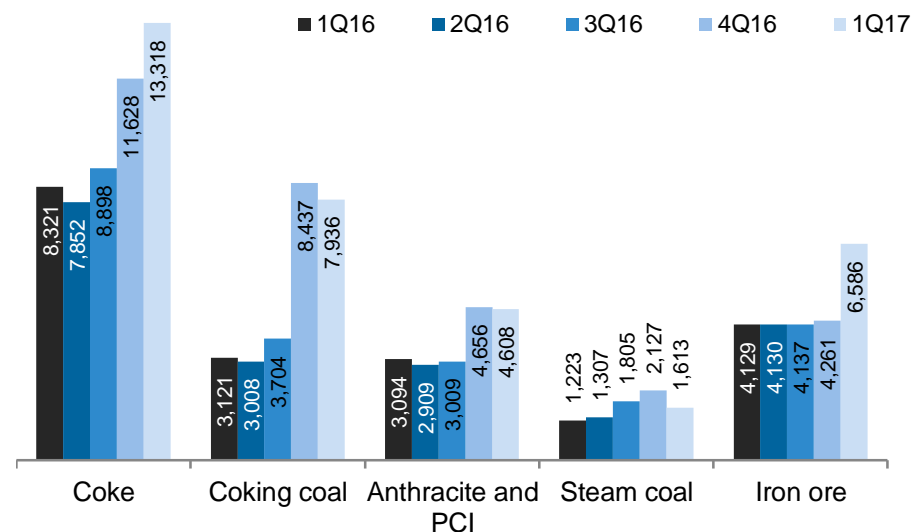




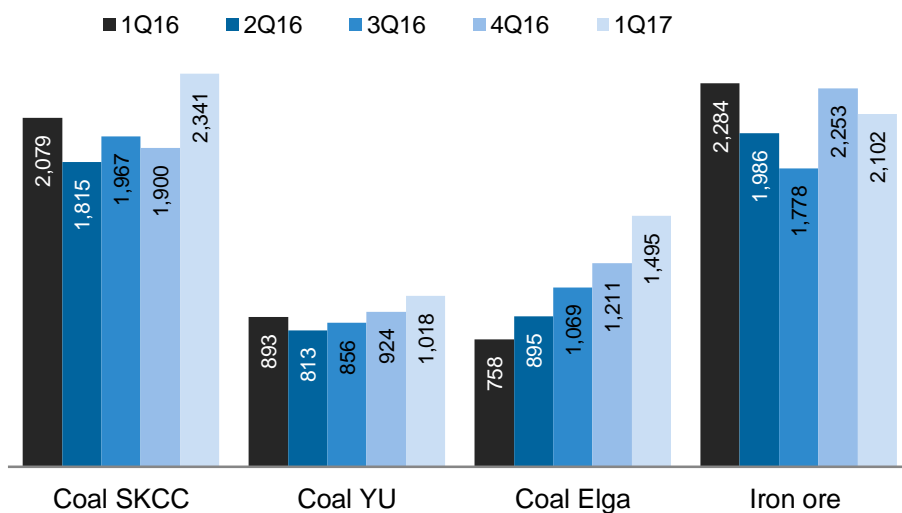
## Revenue, EBITDA margin, RUB Bln



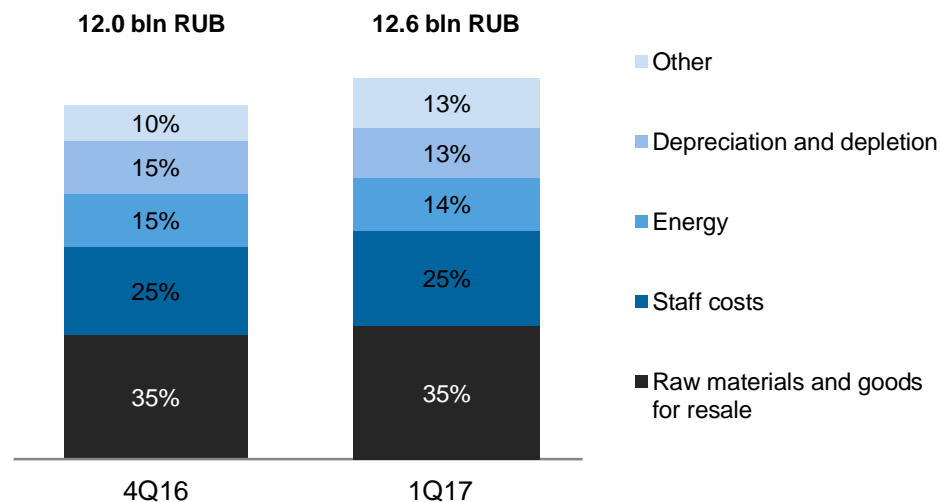
## Average sales prices FCA, RUB/tonne



## Cash costs, RUB/tonne



## COS structure



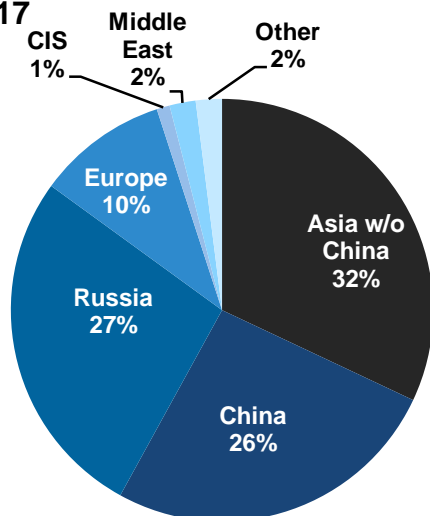


# Mining segment

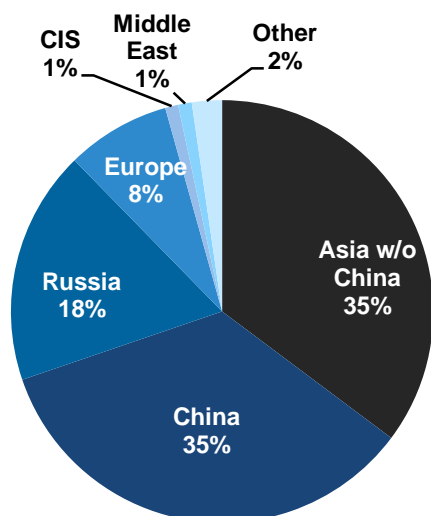


## Revenue breakdown by regions

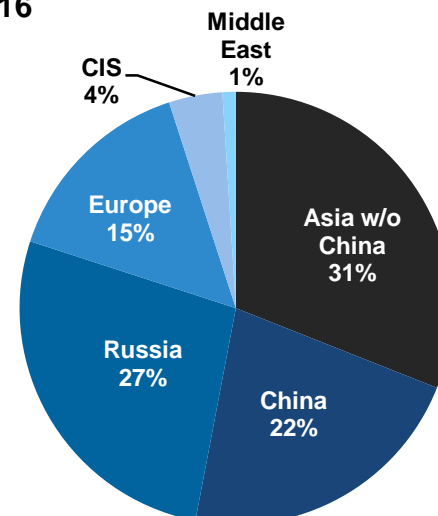
1Q 2017



4Q 2016

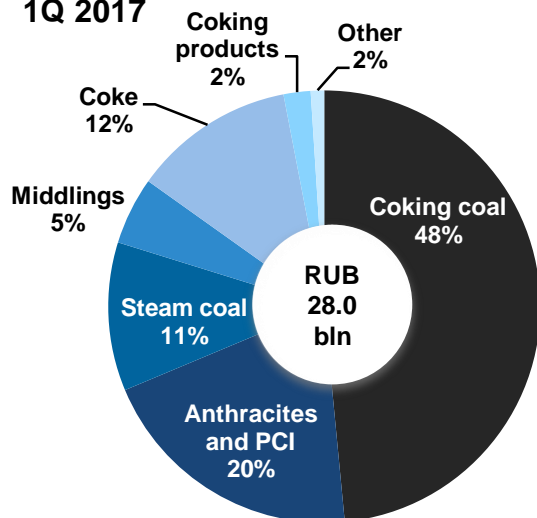


1Q 2016

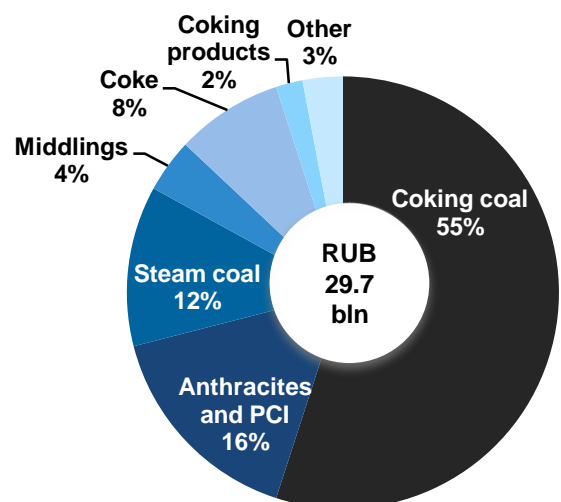


## Revenue breakdown by products

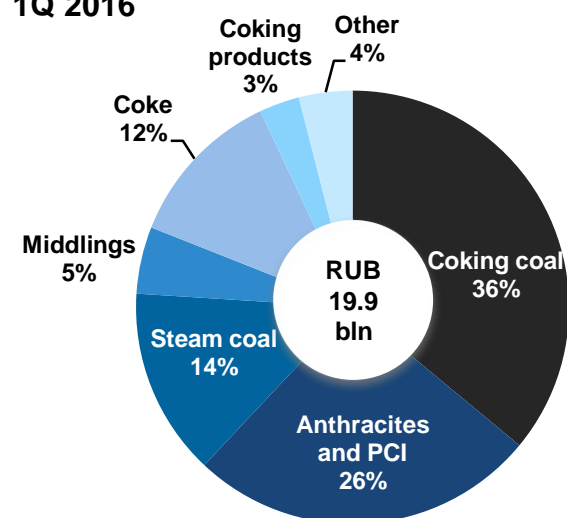
1Q 2017



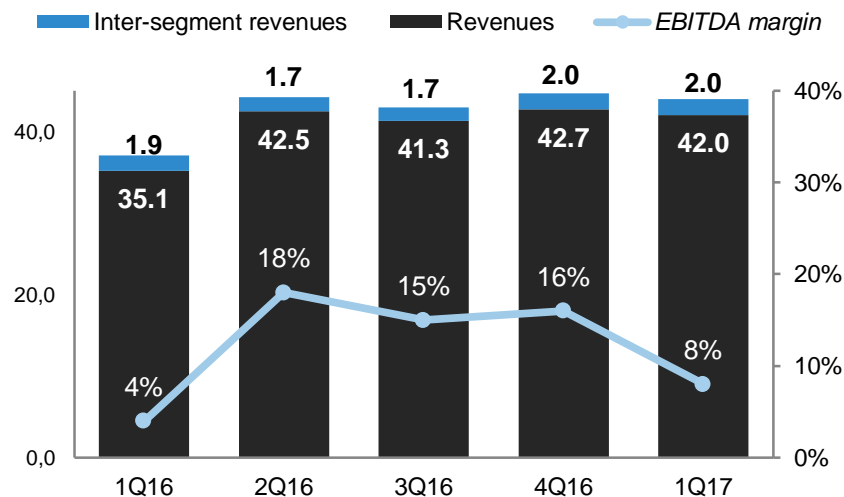
4Q 2016



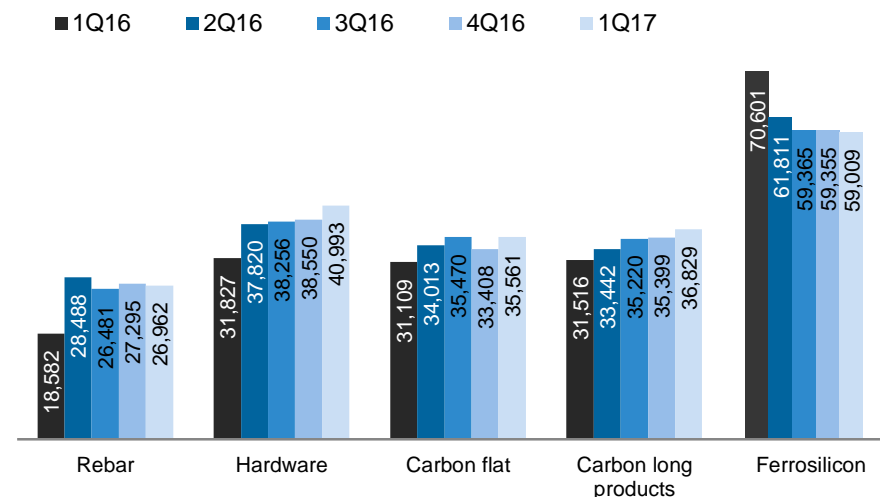
1Q 2016



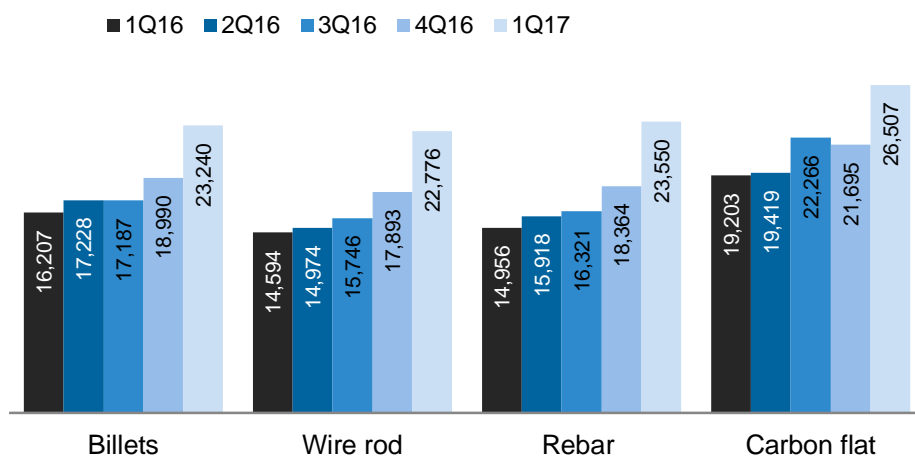
## Revenue, EBITDA margin, RUB Bln



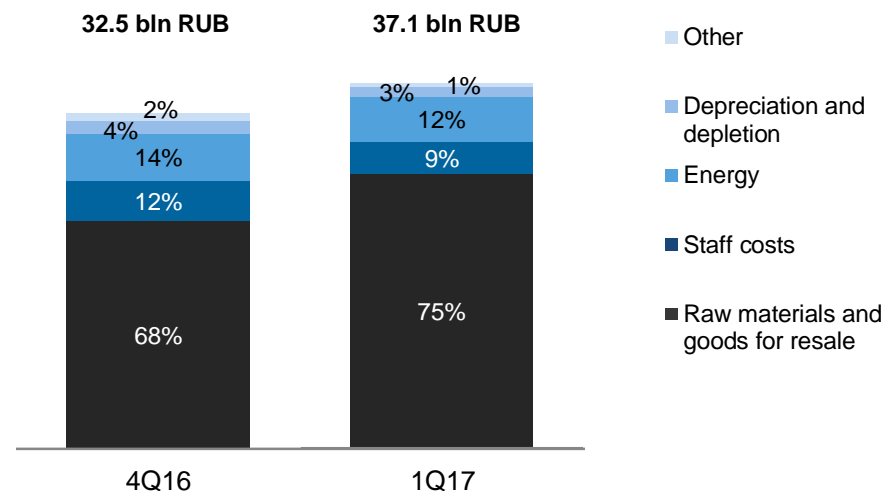
## Average sales prices FCA, RUB/tonne



## Cash costs, RUB/tonne



## COS structure

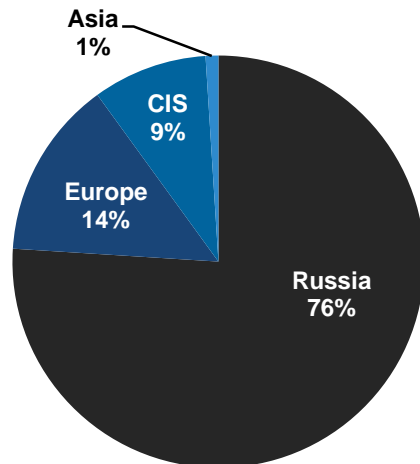


# Steel segment

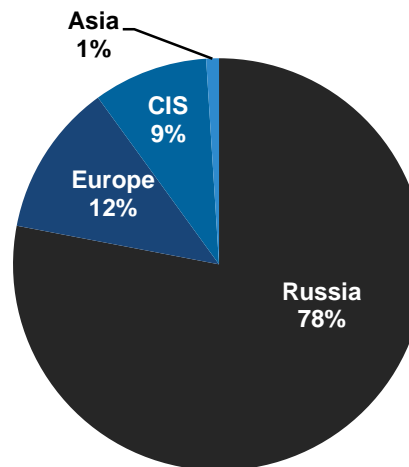


## Revenue breakdown by regions

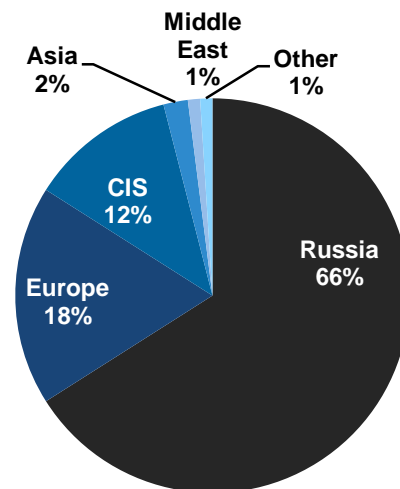
1Q 2017



4Q 2016

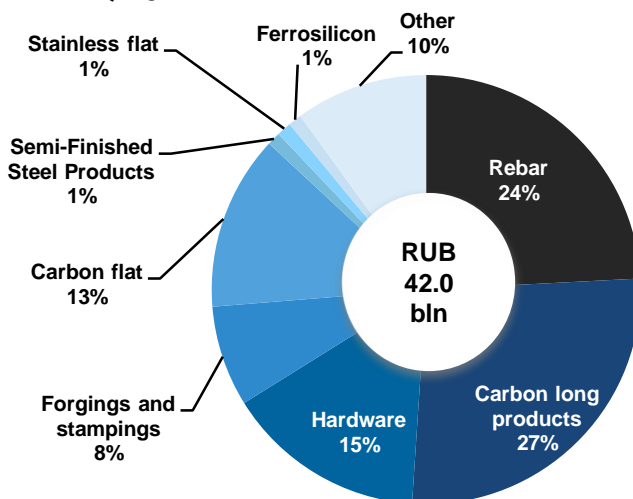


1Q 2016

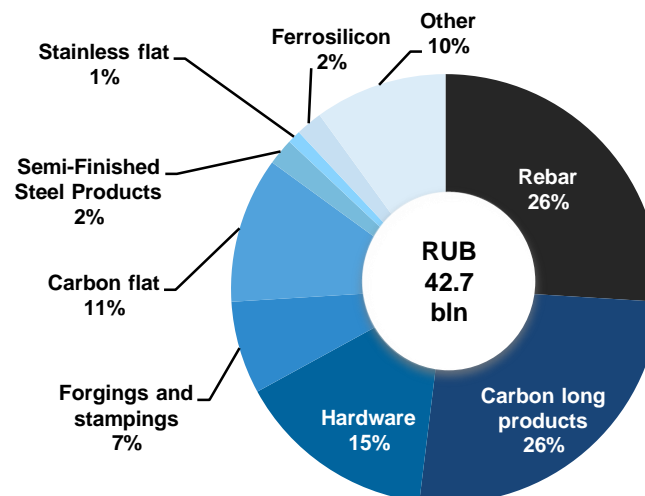


## Revenue breakdown by products

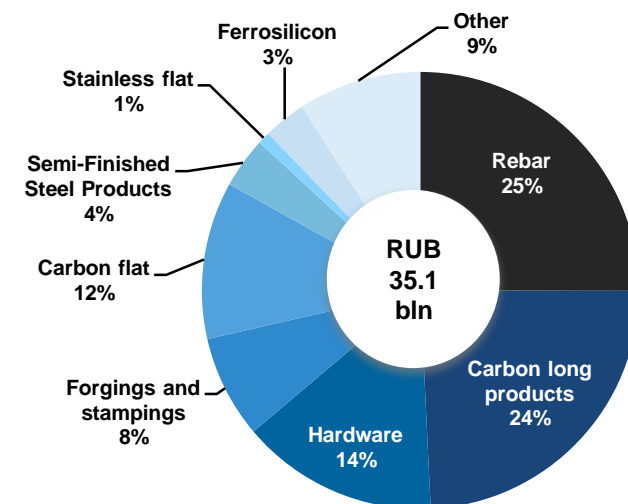
1Q 2017



4Q 2016



1Q 2016



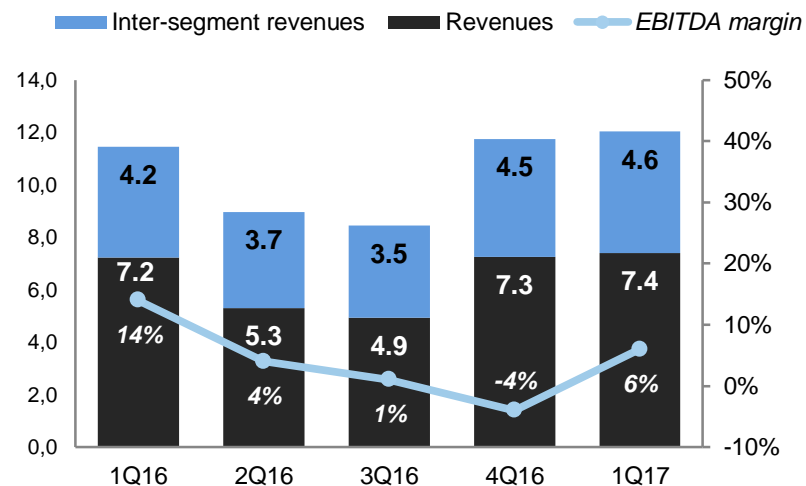


# Power segment

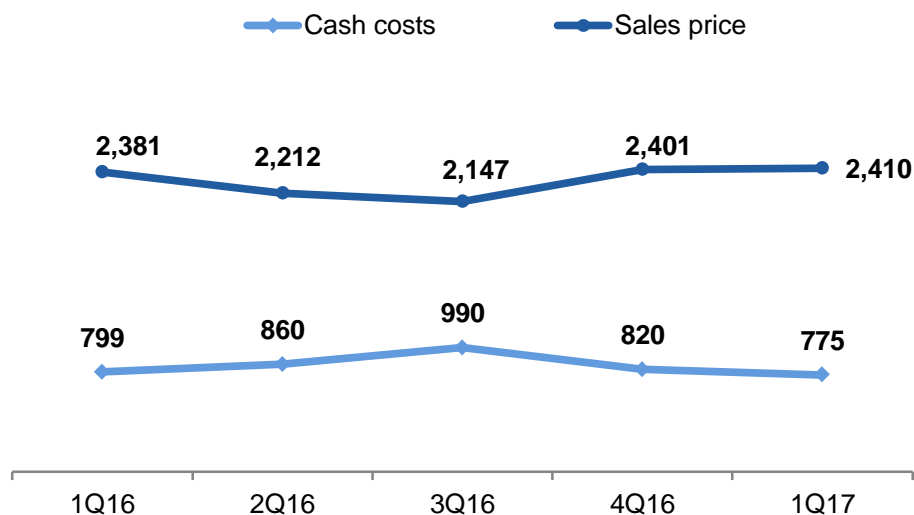


- Revenue for the period increased due to winter season.
- 1Q2017 EBITDA increased on higher heat and electricity demand and lower costs.

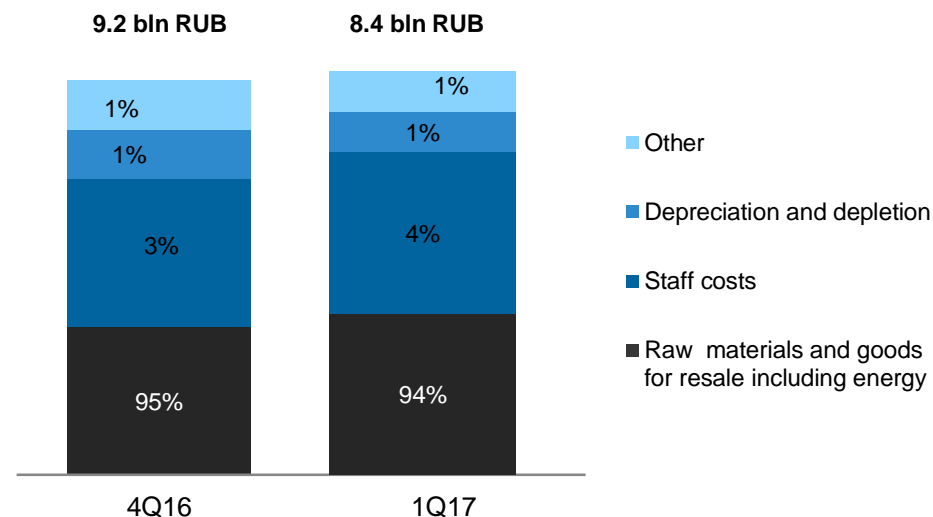
## Revenue, EBITDA margin, RUB Bln



## Average electricity sales prices and cash costs, RUB/ th KWh



## COS structure



Mechel is a global mining and metals company

