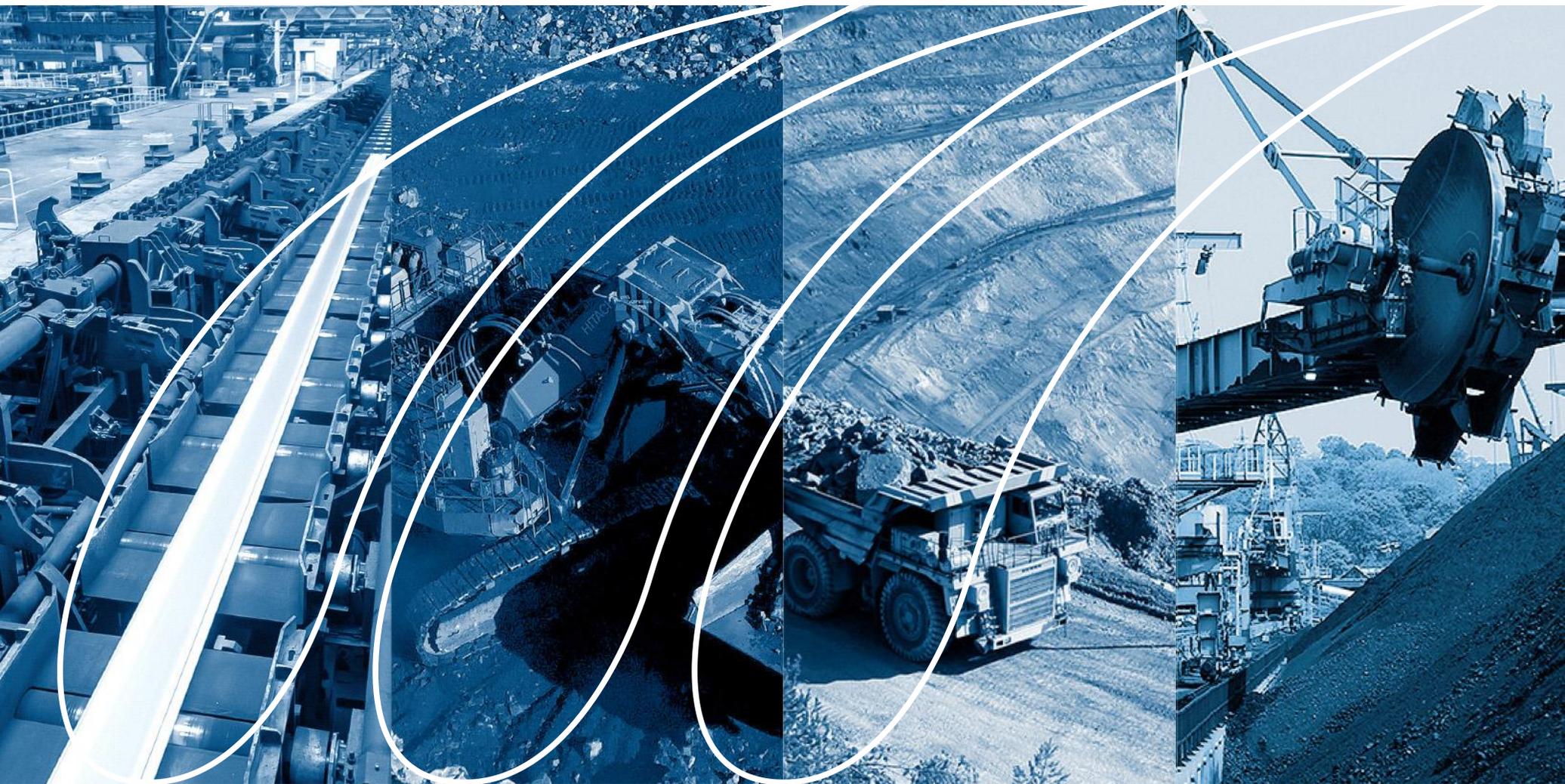


# 1H 2017 RESULTS PRESENTATION

August 23, 2017



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# KEY FINANCIAL RESULTS

Sergey Rezontov – Chief Financial Officer

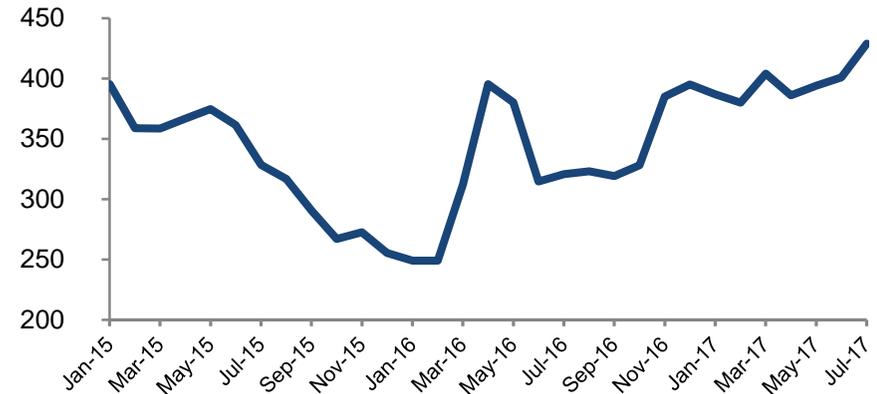


# Key market drivers



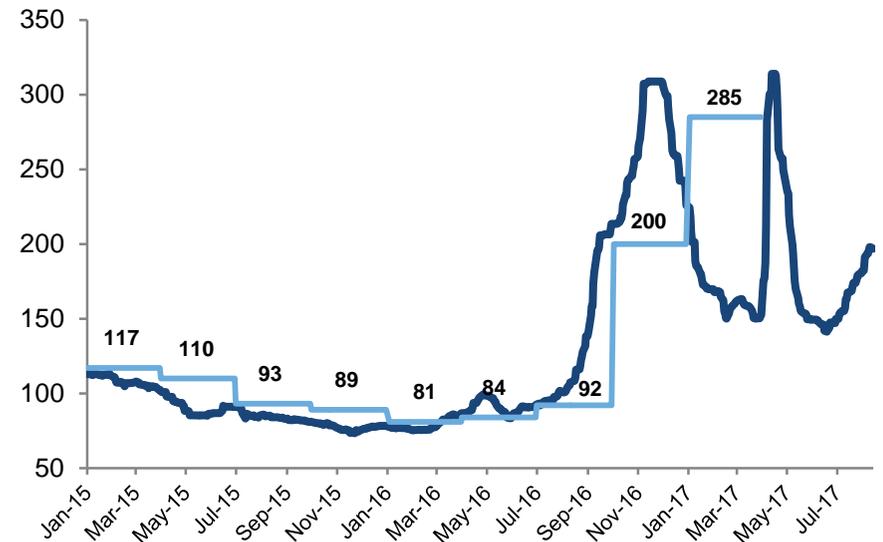
- 1H2017 period was distinguished by high volatility on the coal market. After significant coking coal price growth to over \$300 per tonne in November-December 2016 supply growth led to hard coking coal spot prices decline to \$150-170 per tonne in 1Q2017.
- Benchmark price for the 1Q2017 was \$285 that was higher than \$200 for the 4Q2016 but it had tendency to decrease in the future periods.
- When tropical cyclone Debbie destroyed railway infrastructure in one of the largest coal mining regions of Australia and that led to breaches of coal supplies, spot prices again spiked to over \$300 per tonne levels at the beginning of 2Q2017. But after railroads reconstruction coal prices went back to \$150 per tonne level and even reached lowest point at about \$140 in June.
- Due to such high volatility benchmark price for 2Q2017 was not established by the end of the quarter and coal market players decided to switch from quarterly benchmark pricing to index-based prices.
- In July coal prices again started their growth and now are at a level of about \$200.
- Iron ore prices in 1Q2017 demonstrated growth supported by an increase of steel prices. But with downward steel prices movements in 2Q2017 iron ore prices decreased following the steel prices decline.
- During the first half of the year billet price was more stable and fluctuated in the range between \$385 and \$405 comparing with the range \$294 and \$395 in the first half of the previous year. At the same time average domestic market prices for rebar this year fell down from RUB27th to RUB24th following the currency appreciation.
- Starting from July we saw an increase of the billet price to \$505 per tonne which together with currency appreciation and seasonal increase of the demand resulted in the increase of our rebar sales prices on the domestic market to RUB29.3th per tonne.

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



Source: Metal Courier

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



— HCC spot price  
 — HCC quarterly benchmark price

Source: Bloomberg

# 1H 2017 Financial results summary



- Consolidated Revenue in 1H2017 amounted to 149.4 bln RUB, increased by 15% compared to 1H2016, due to higher prices for both Mining and Steel divisions products and increased share of high value-added products in Steel division product mix.
- EBITDA\* increased by 56% compared to 1H2016 and amounted to 40.2 bln RUB with EBITDA margin 27%, mostly as a result of significant Mining division profitability growth on coal prices recovery.
- Group generated Net profit attributable to equity shareholders of Mechel PAO of 5.0 bln RUB vs 8.3 bln RUB in 1H2016 including currency appreciation effect amounts to 1.8 bln RUB and 17.4 bln RUB respectively.

RUB mln	1H17	1H16	%	2Q17	1Q17	%
<b>Revenue</b>	149,384	130,197	15%	71,970	77,414	-7%
<b>Operating profit</b>	30,677	17,200	78%	12,588	18,089	-30%
<b>EBITDA*</b>	40,227	25,721	56%	17,421	22,806	-24%
<b>EBITDA margin, %</b>	27%	20%		24%	29%	
<b>Net profit (loss) attributable to equity shareholders of Mechel PAO</b>	4,994	8,300	-40%	(8,908)	13,902	

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

# 1H 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 and underfinancing in previous periods.
- Production of pig iron was at a stable level and steel production increased by 5% compared to 1H2016.

- Coking and steam coal sales decline in 1H2017 was a result of lower mining volumes.
- Flat products sales went up by 20% compared to 1H2016 on higher demand and product-line expansion.
- Long products sales slightly decreased on product line revision with increase of hardware, forgings and stampings sales.

## Production (th tonnes)

Product	1H17	1H16	%	2Q17	1Q17	%
<b>Run-of-mine Coal</b>	10,331	11,528	-10	5,257	5,074	+4
<b>Pig Iron</b>	2,038	2,044	0	991	1,046	-5
<b>Steel</b>	2,217	2,108	+5	1,096	1,121	-2

## Sales (th tonnes)

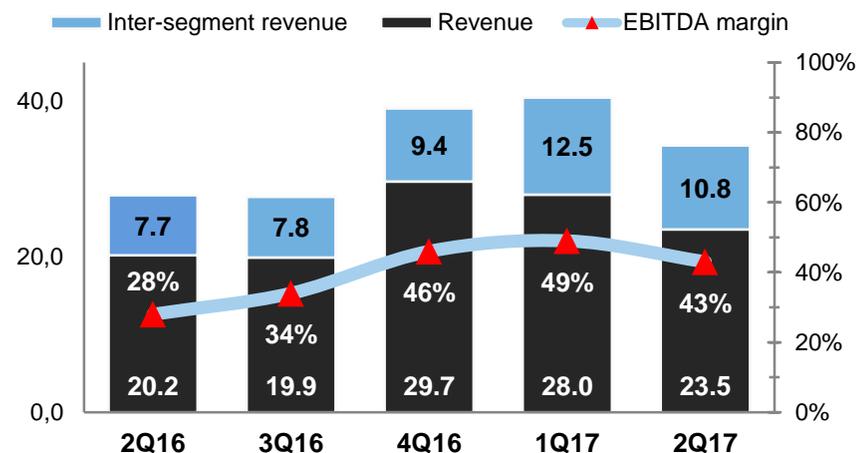
Product	1H17	1H16	%	2Q17	1Q17	%
<b>Coking Coal</b>	4,072	4,470	-9	2,076	1,996	+4
<b>Steam Coal</b>	3,165	3,575	-11	1,576	1,589	-1
<b>Flat Products</b>	304	254	+20	151	153	-1
<b>Long Products</b>	1,466	1,500	-2	761	705	+8

# Mining segment

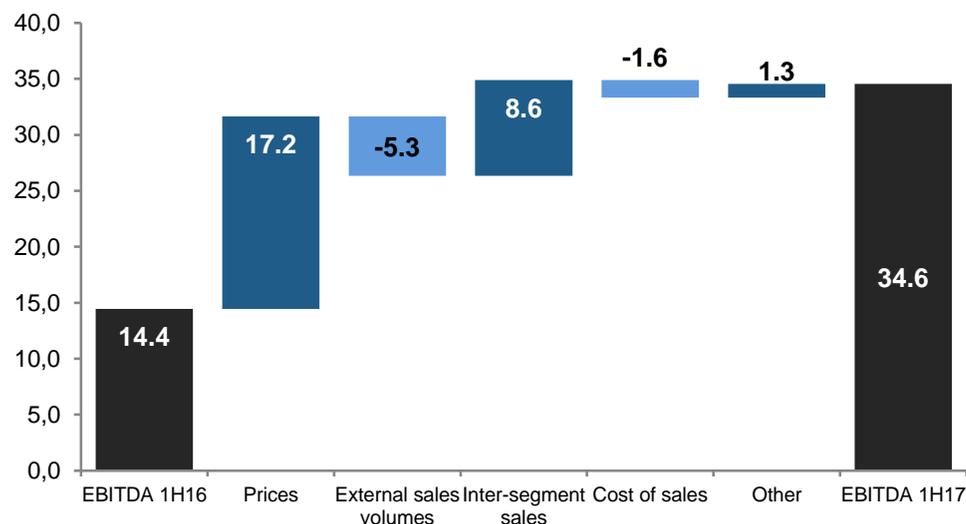


- In 1H2017 we envisaged a decrease of Russia and Europe in the sales structure replaced by China and other Asian countries as a result of stronger demand. Consolidated share of Russia with Europe decreased from 42% in 1H2016 to 33% in 1H2017.
- High prices were the main factor of EBITDA growth by 139% compared to 1H2016 which reached 34.6 bln RUB with EBITDA margin 46%.
- At the same time EBITDA was negatively affected by lower sales volumes compared to 1H2016 as a result of insufficient equipment maintenance due to financing constrains in previous periods.
- Inter-segment sales volumes increased materially on iron ore prices growth taking into account that volumes of iron ore concentrate produced by Korshunov Mining Plant were consumed internally.

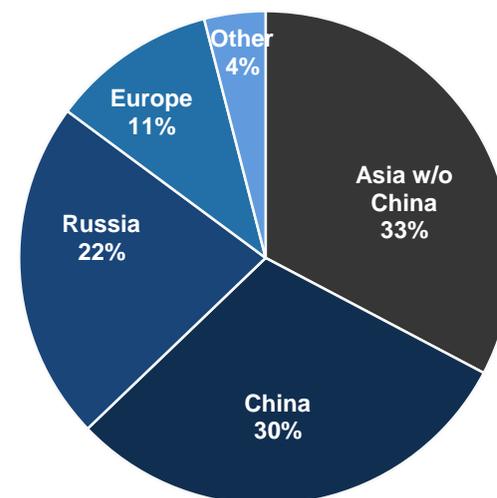
## Revenue, EBITDA margin, RUB Bln



## EBITDA, RUB Bln



## Revenue breakdown by regions (1H 2017)

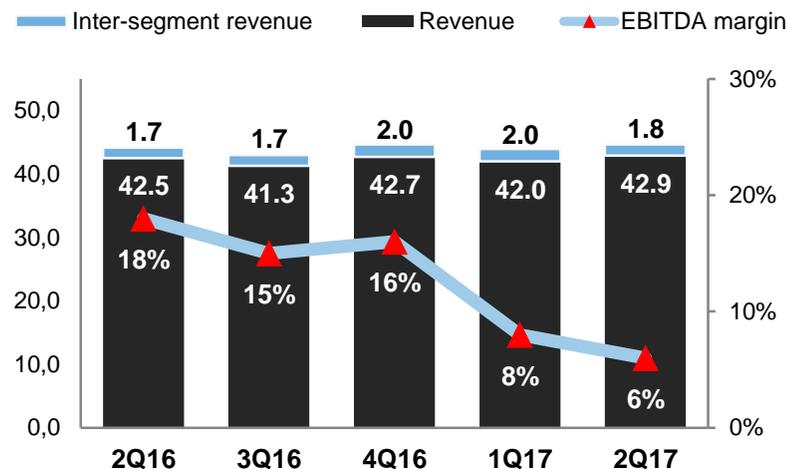


# Steel segment

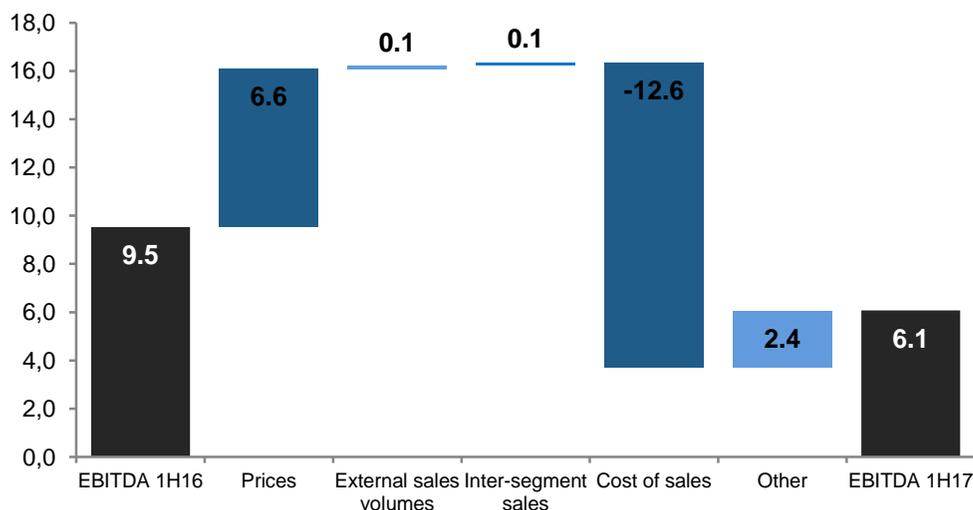


- Domestic Russian and CIS markets are most important for our steel division with their share amounting to 85% of segment revenue.
- Better pricing environment and lower administrative and commercial expenses had a positive impact on 1H2017 EBITDA but it was offset by higher costs.
- Higher costs were primarily result of higher raw materials prices.

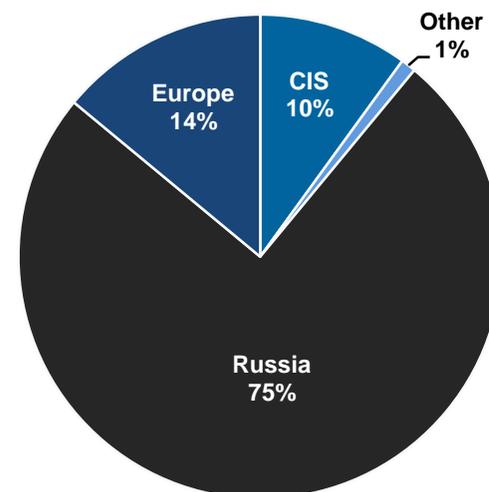
## Revenue, EBITDA margin, RUB Bln



## EBITDA, RUB Bln



## Revenue breakdown by regions (1H 2017)

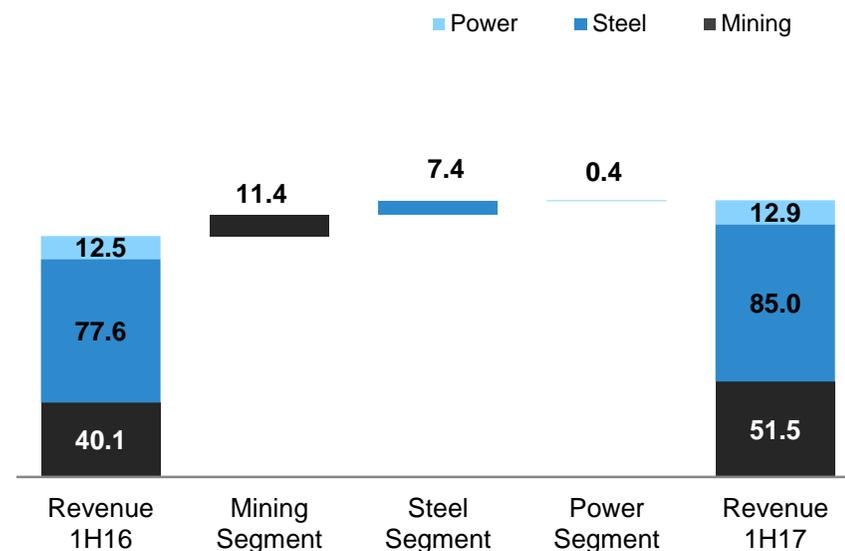


# Consolidated revenue and EBITDA dynamics

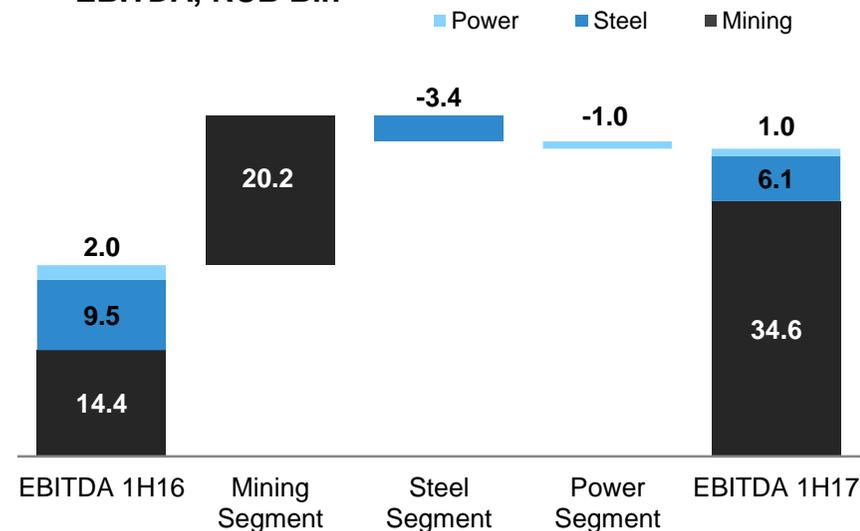


- Mining segment Revenue to 3<sup>rd</sup> parties in 1H2017 increased by 29%, compared to 1H2016 on higher coal prices.
- Steel segment Revenue demonstrated a 9% growth on higher prices and increase of high-value added products share.
- Power segment Revenue to 3<sup>rd</sup> parties slightly increased due to tariffs growth.
- Mining segment EBITDA increased by 139% compared to 1HQ2016 due to high coal prices and amounted to 34.6 bln RUB.
- Steel segment EBITDA lost 36% on higher costs arose from high raw materials prices and amounted to 6.1 bln RUB.
- Power segment EBITDA decreased by 52% and amounted to 1.0 bln RUB.

Revenue, RUB Bln



EBITDA, RUB Bln

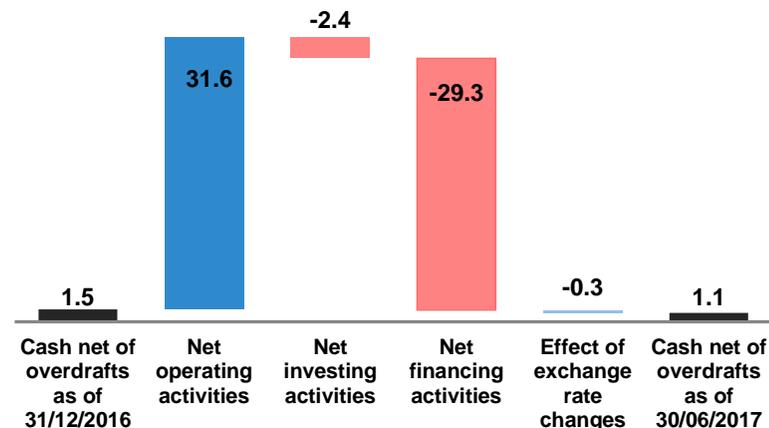


# Cash flow & trade working capital

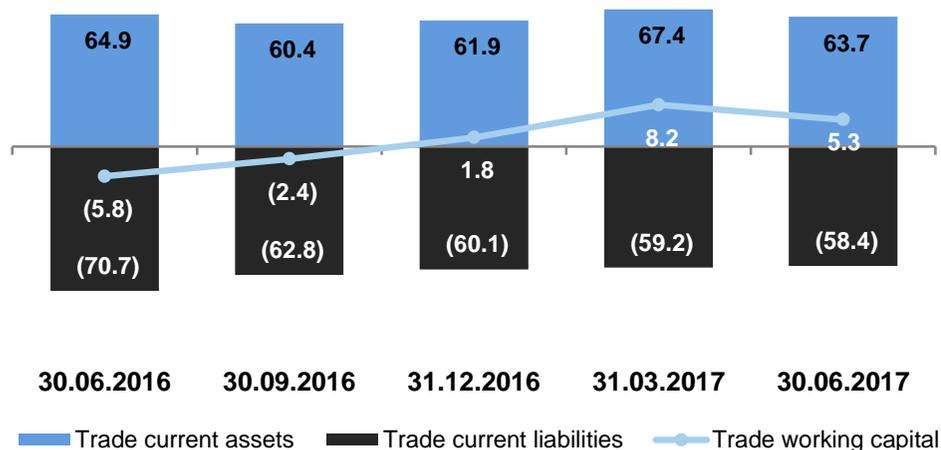


- Cash flow from operations to a large extent covers Group's current expenses.
- In 2Q2017 there was a trade working capital release of 2.9 bln RUB.
- Group's capital expenditures increased from 2.3 bln RUB in 1Q2017 to 3.1 bln RUB for 2Q2017, including 0.9 bln RUB of lease payments.

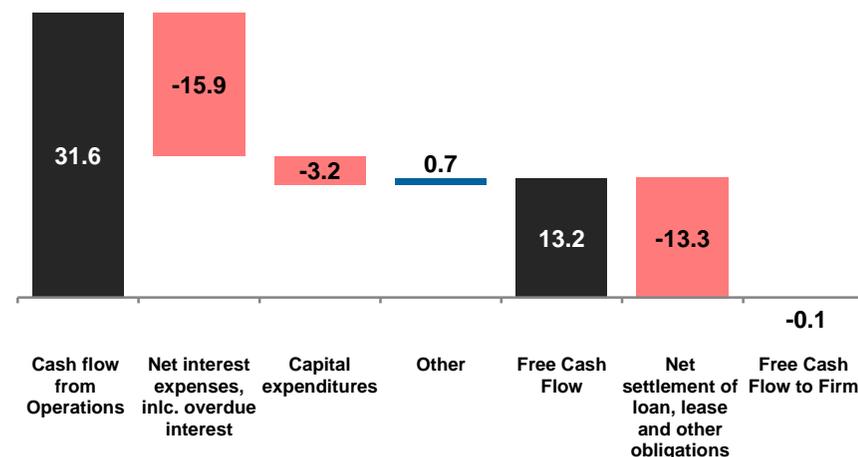
## CASH FLOW, RUB Bln



## Trade working capital management, RUB Bln



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



# Key projects results



## Universal rolling mill on Chelyabinsk metallurgical plant

- From January 2016 Mechel supplies rails to Russian Railways.
- Total sales volume during 1H2017 amounted over 300 th tonnes, an increase of 47% compared to 1H2016.
- As a result of Universal rolling mill steady ramp up its capacity utilization in 2016 reached almost 50% and in 1H2017 it already exceeds 65%, reaching 80% at certain months.
- In August 2017 total production volume of rails since the launch of operations exceeded 500 th tonnes.
- New types of rails production (for use at European railways) have already adopted at the plant and passed certification for conformity with European railroad standards.

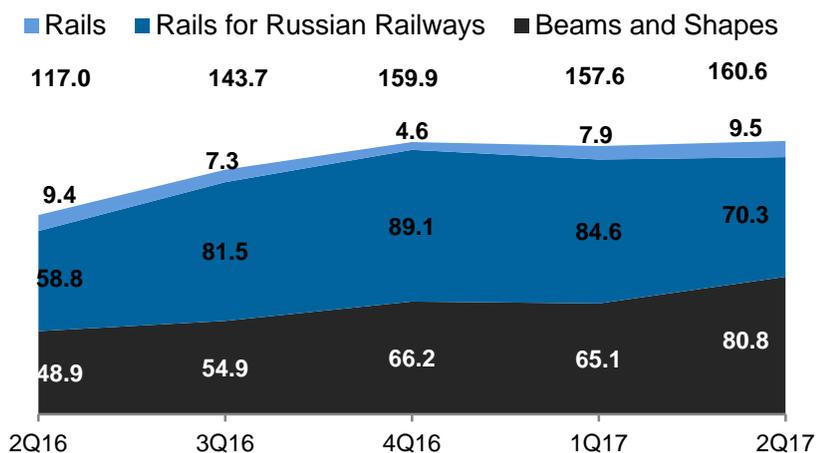
## Elga coal project development

- Plan for 2017 is 4.5 mln tonnes of coal.
- In 1H2017 share of coking coal in total mining volumes amounted to 82%.

## Universal rolling mill production (th tonnes)

Product	1H17	1H16	%	2Q17	1Q17	%
<b>Rails, beams and shapes</b>	313	213	+47	156	157	-1

## Universal rolling mill Production in 2Q 2016 – 2Q 2017 (th tonnes)



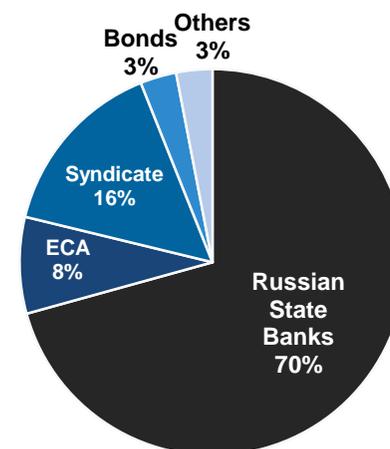
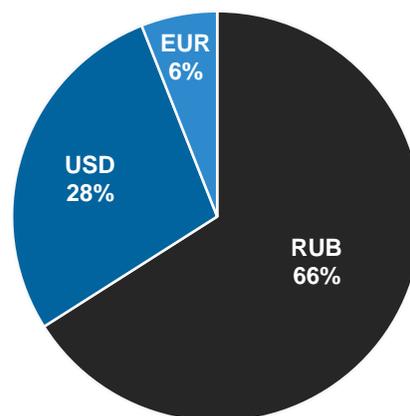
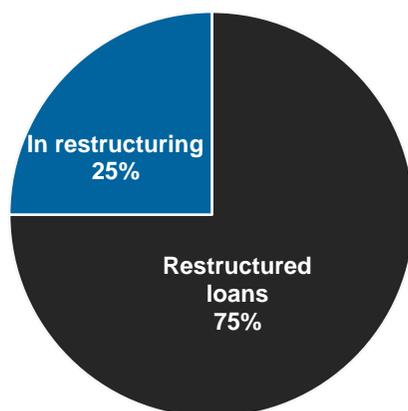
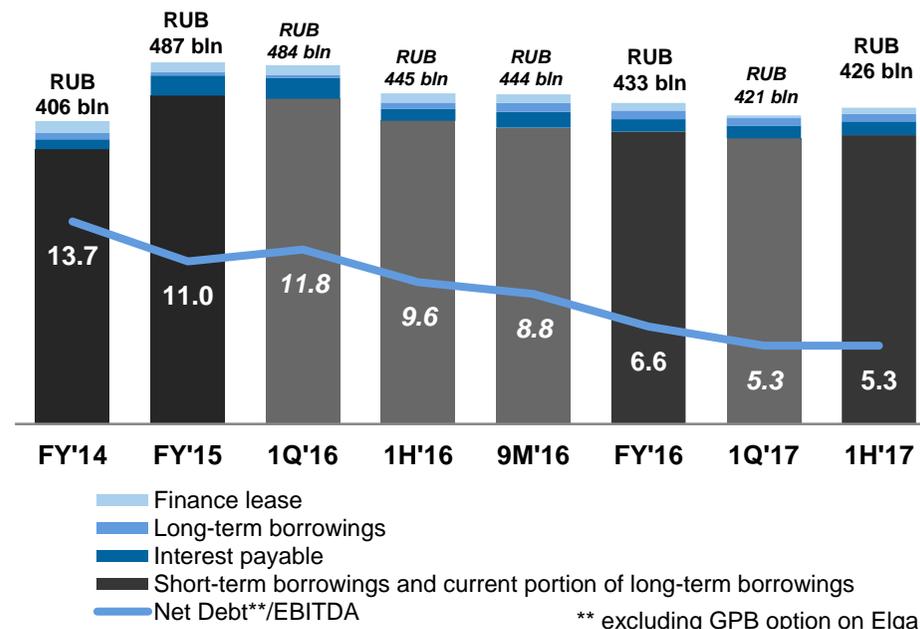
## Elga Coal Complex (th tonnes)

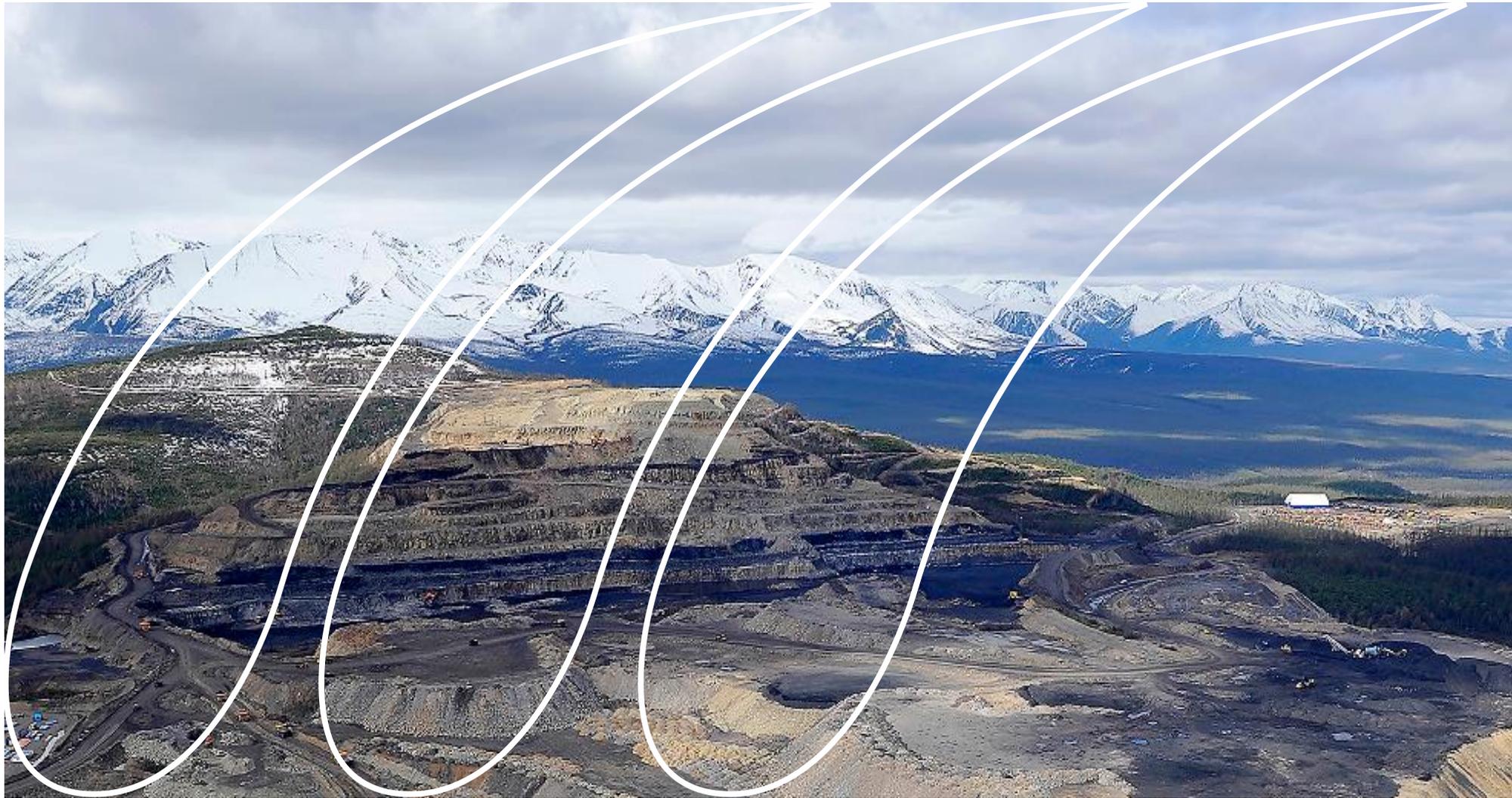
Product	1H17	1H16	%	2Q17	1Q17	%
<b>Run-of-mine coal</b>	1,934	2,011	-4	1,097	837	+31

# Debt structure & net debt / EBITDA ratio dynamics



- As of the date of financial release - 75% of Group's debt has been restructured; ruble portion of debt amounts to 66%; and Russian state banks hold 70% 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.
- Net leverage stabilized at a level of 5.3 on stable EBITDA and debt.
- Average interest rate through debt portfolio as of August 2017 is 9.1% 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.
- In 1H2017 Group repaid 13.3 bln RUB of debt.

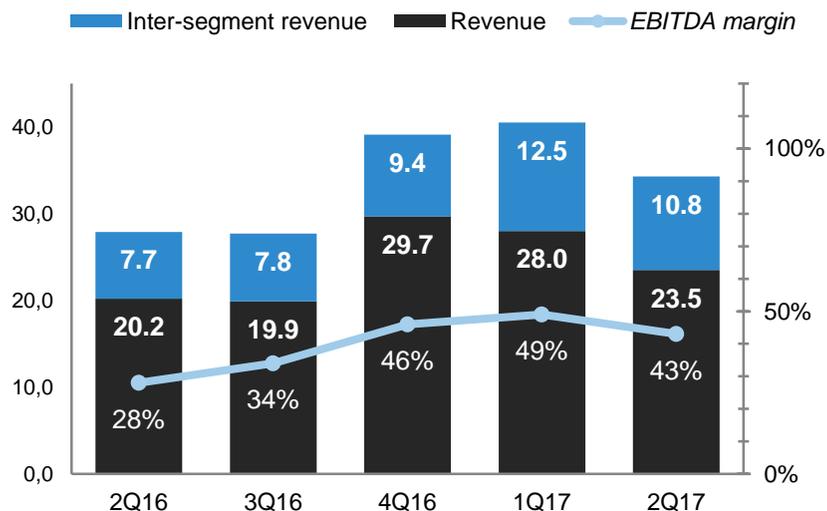




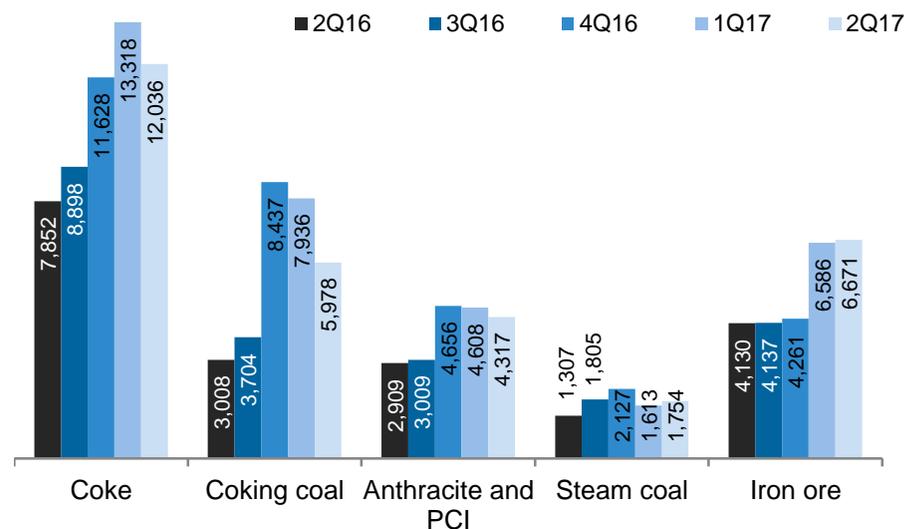
# Mining segment



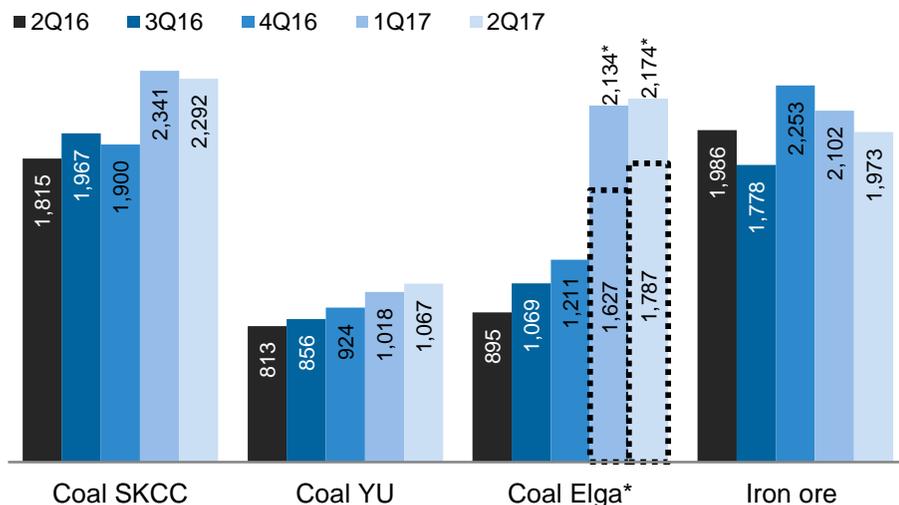
### Revenue, EBITDA margin, RUB Bln



### Average sales prices FCA, RUB/tonne



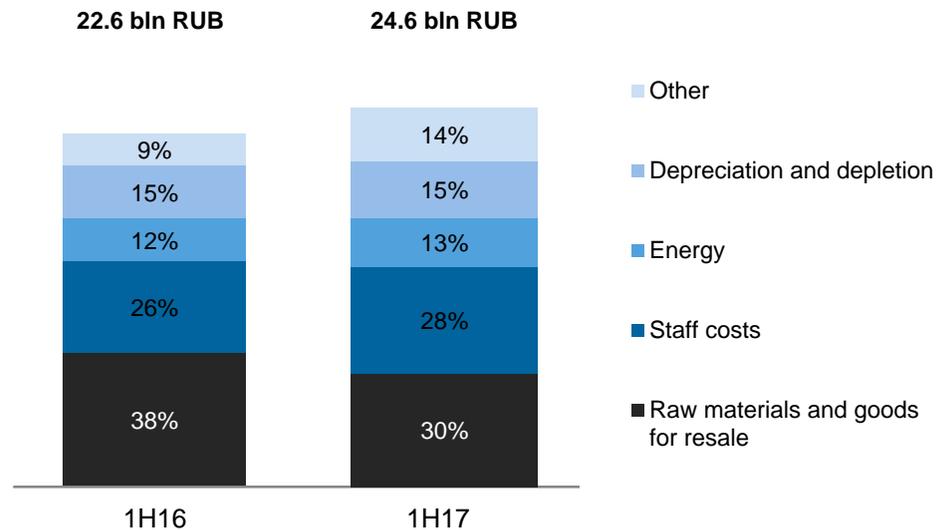
### Cash costs, RUB/tonne



⊞ Coking coal concentrate produced on Elga

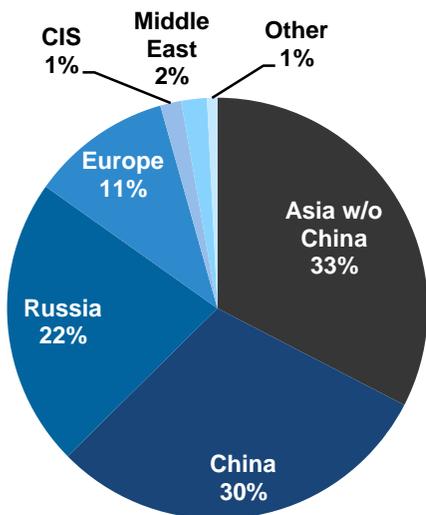
\* Coking coal concentrate produced on Elga and Southern Kuzbass Coal Company washing facilities

### COS structure



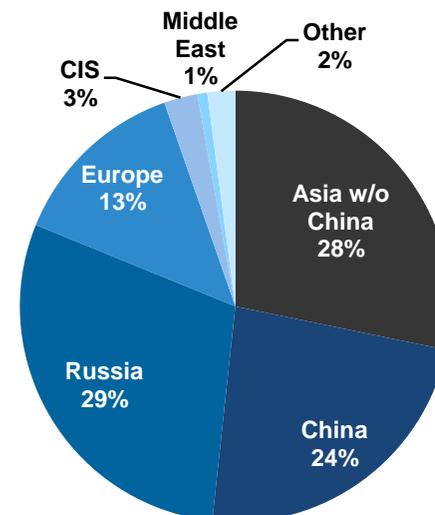
## Revenue breakdown by regions

1H 2017



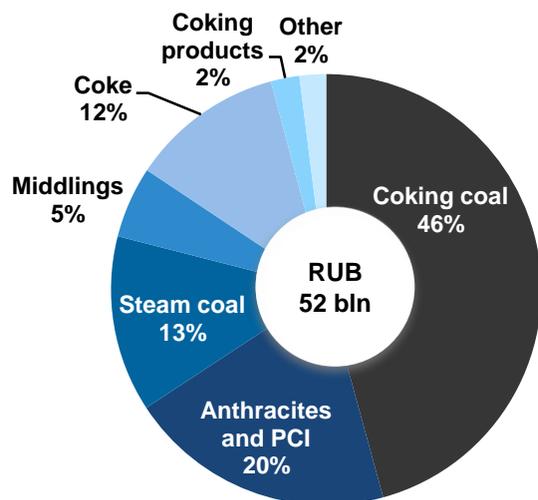
## Revenue breakdown by regions

1H 2016



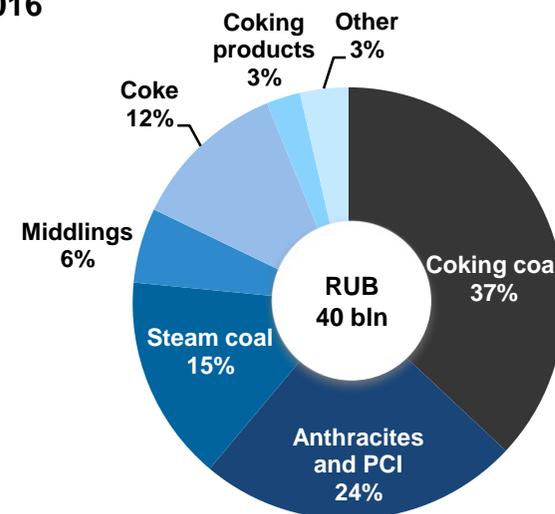
## Revenue breakdown by products

1H 2017

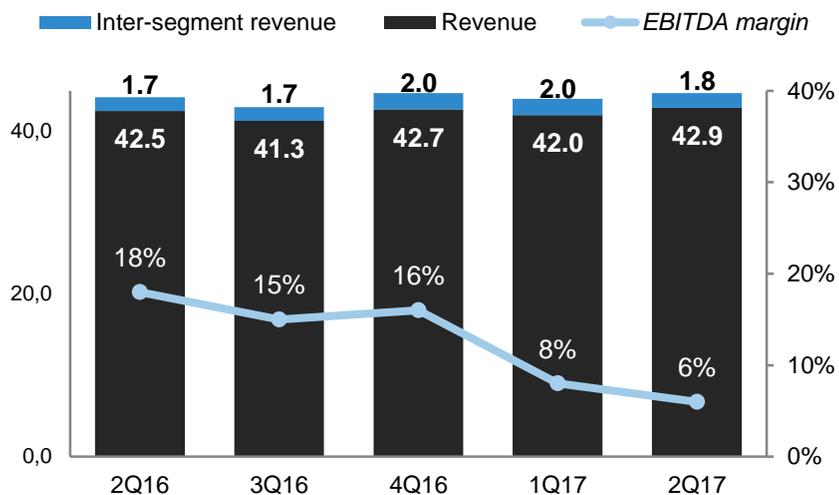


## Revenue breakdown by products

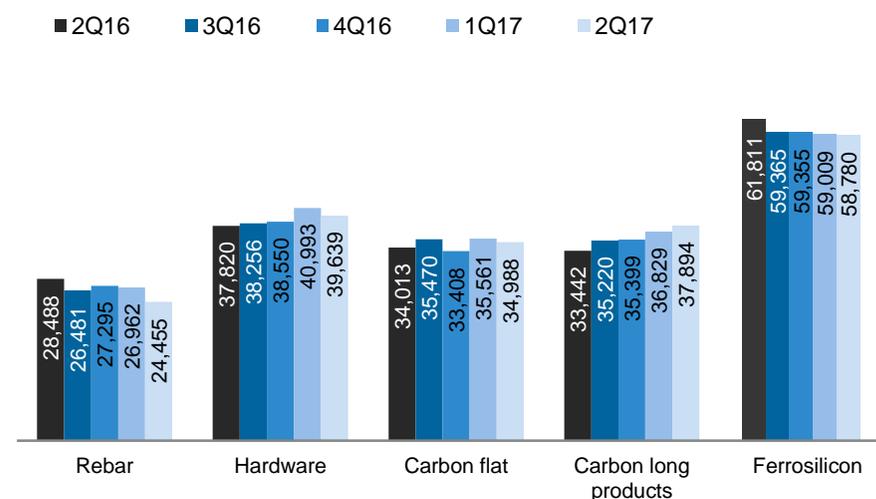
1H 2016



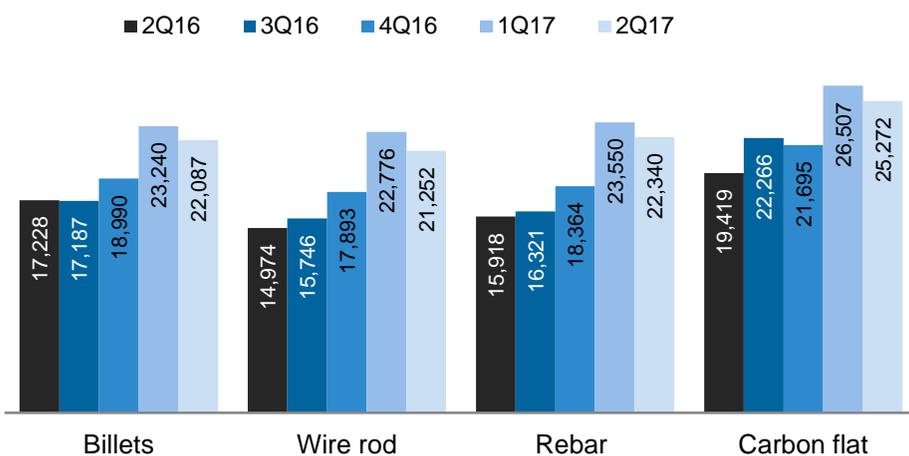
### Revenue, EBITDA margin, RUB Bln



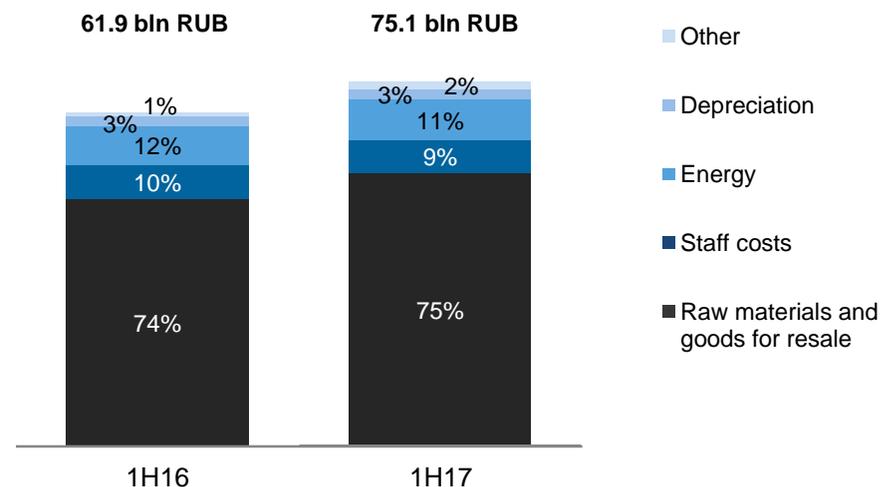
### Average sales prices FCA, RUB/tonne



### Cash costs, RUB/tonne

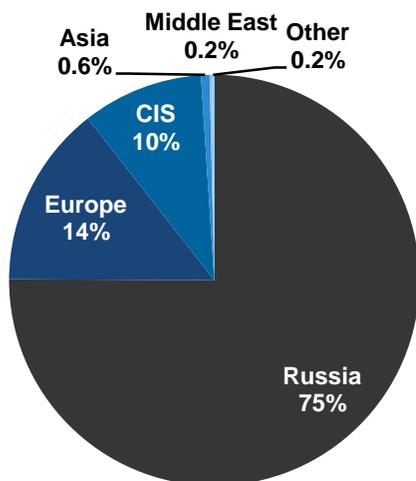


### COS structure



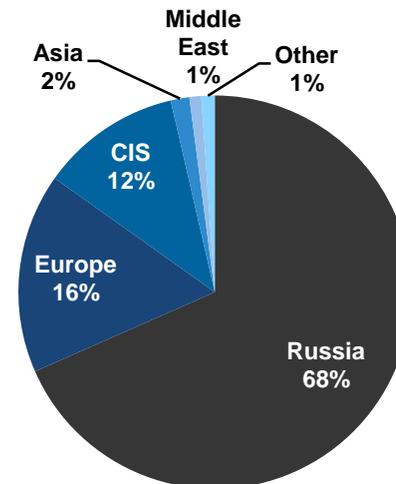
## Revenue breakdown by regions

1H 2017



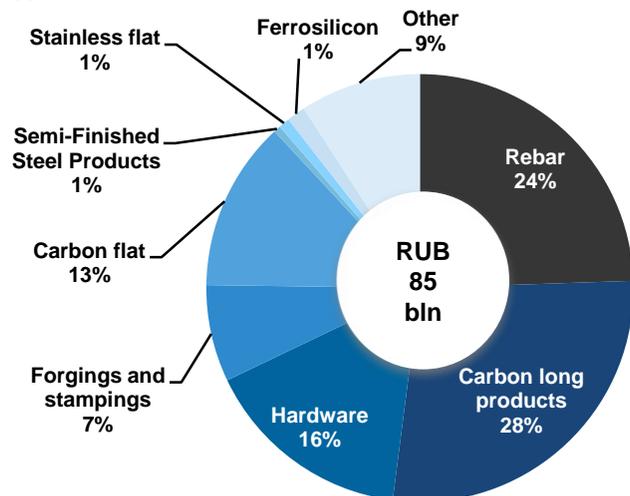
## Revenue breakdown by regions

1H 2016



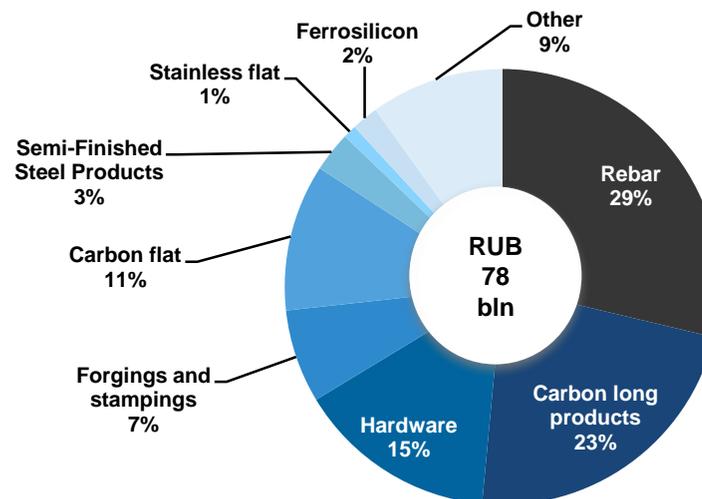
## Revenue breakdown by products

1H 2017



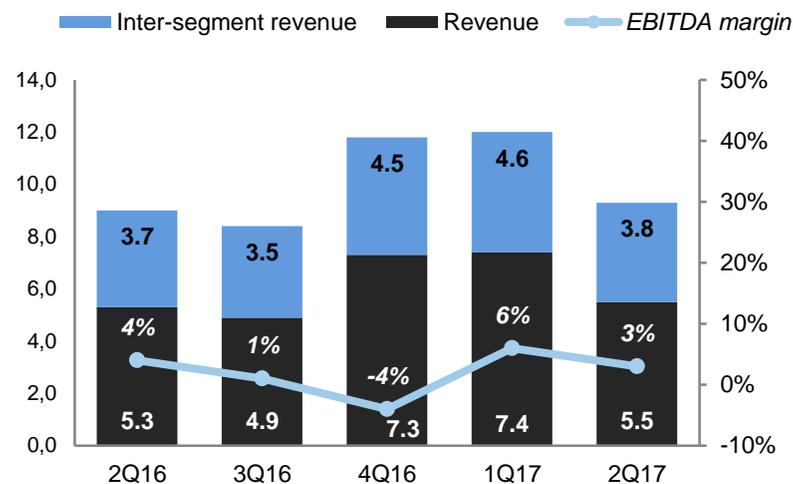
## Revenue breakdown by products

1H 2016

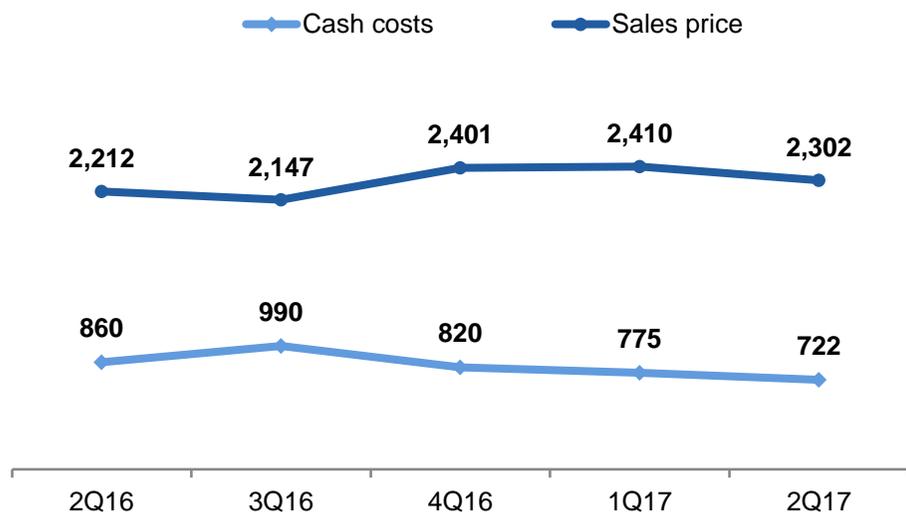


- Revenue for the 1H2017 slightly increased on tariffs growth.
- 1H2017 EBITDA decreased on higher tariffs on electricity for resale.

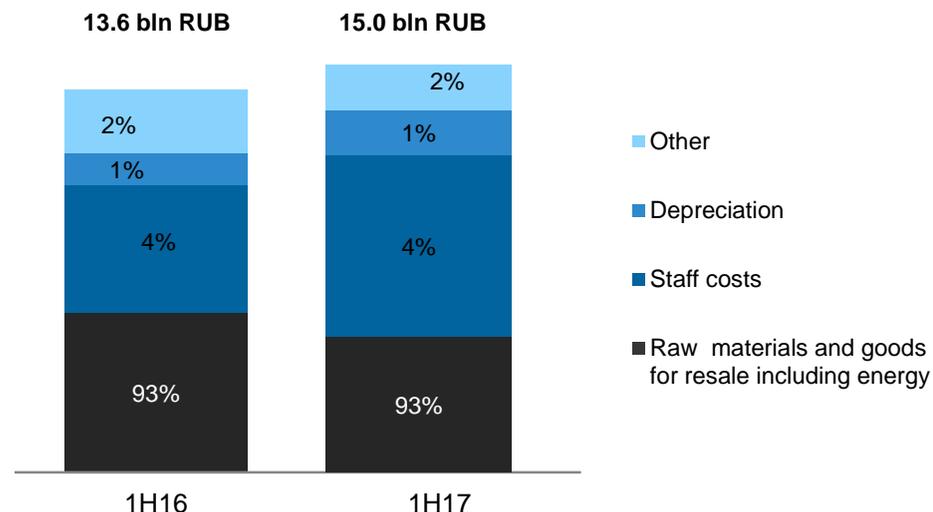
## Revenue, EBITDA margin, RUB Bln



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



## COS structure



Mechel is a global mining and metals company

