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**Nikolay Sosnovskiy**

**Oleg Petropavlovskiy** *BCS Financial Group, Research Division - Metals and Mining Senior Analyst*

## PRESENTATION

### Operator

Good day, and welcome to the Mechel Reports Full Year 2017 Financial Results. Today's conference is being recorded. And at this time, I would like to turn the conference over to Ms. (sic) [Mr.] Alexey Lukashov. Please go ahead.

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### Alexey Lukashov

Thank you, and good day, everyone. I would like to welcome you to Mechel's conference call to discuss our full year 2017 results, which we reported today.

With us from management today are Mr. Oleg Korzhov, Mechel's CEO; and Mrs. Nelli Galeyeva, Mechel's CFO. After management has made their formal remarks, we will take your questions to the presentation team.

Please note that during the call, management will make forward-looking statements, some of which may have been made in the press release. Some of the information on this conference call may contain projections or other forward-looking statements regarding future events or the future financial performance of Mechel as defined in the safe harbor provision of the United States Private Securities Litigation Reform Act of 1995.

We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements. We refer you to the documents Mechel files from time-to-time with the United States Securities and Exchange Commission, which contain and identify important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements.

In addition, we will be using non-IFRS financial measures, including EBITDA, in our discussions today. Reconciliation of non-IFRS financial measures to the most directly comparable IFRS financial measures are contained in the earnings press release, which is available on our website at [www.mechel.com](http://www.mechel.com).

At this point, I would like to turn the call over to Mechel's CEO, Mr. Korzhov. Please go ahead.

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### Oleg V. Korzhov - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) Good afternoon, and good morning, ladies and gentlemen, and welcome to the conference call for the company's 2017 financial results.



(foreign language) In 2017, the group demonstrated financial results exceeding those of the previous year. Consolidated revenue went up by 8%, reaching RUB 299 billion. EBITDA went up 23% and reached RUB 81 billion, while net profit attributable to Mechel's shareholders went up by 62% to RUB 11.6 billion. In 2017, the company met all its restructured financial obligations due to lender banks.

(foreign language) Our financial improvement was largely driven by the favorable situation in the metallurgical coal market, which was reflected in our mining division's results. Coal prices in 2017 were highly volatile. Despite that, the average annual prices last year far exceeded the [216] level.

For example, the average quarter price on quarterly contracts for high-quality hard coking coal was approximately \$210 FOB Australia, which is 84% higher than in 2016. Considering that since November 2017 and until March 2018 spot prices for premium coal ranged between \$200 and \$260 per tonne, contract prices for premium coking coal demonstrated further growth in the first quarter of 2018 and reached \$237 per tonne.

(foreign language) High prices prompt miners all over the world to produce more coal and the market did increase the volumes, which should ultimately lead to the price's gradual decrease and stabilization. Nevertheless, in 2018, the price dynamics will depend on China's policies and Australia's shipments.

Limiting loan growth rates in China will probably reach a slower growth rate in investment, industrial production, construction and accordingly, a weaker demand for steel products and steelmaking commodities. At the same time, it is highly likely that China will continue to enlarge and consolidate its mining facilities as well as limit mining volumes, which should support the prices.

(foreign language) Exports of Australian coking coal may go up compared to last year, due to launches of several new projects and relaunches of projects halted earlier. At the same time, we see several factors that may hamper the increase of Australian exports. As Australia's largest railroad operator recently announced the possible decrease of its railroad's carrying capacity by 20 million tonnes, planned loans and repairs of Australian port infrastructure continue and more national cataclysms cannot be rolled out.

(foreign language) As of now, current price levels are comfortable for our company, and we do not foresee a major slump in those levels for this year.

(foreign language) I would like to comment separately on the mining volumes in 2017. Our mining has gone down by 2 million tonnes or 9% compared to 2016 from 22.7 million tonnes to 20.7 million tonnes. Coking coal production has gone down by 1.5 million tonnes and the thermal coal production by approximately 0.5 million tonnes.

If we look at mining at our assets separately, the chief decrease in mining by 1.6 million tonnes of coking coal happened at Yakutugol. This decrease was due to a shift to a new section with a smaller coal seam, as there was no other way to continue development at Neryungri's open pit. But I have to say that this was budgeted for, and overall, Yakutugol met its annual targets.

Mining at Southern Kuzbass Coal Company went down by 900,000 tonnes, including 500,000 tonnes of coking coal and 400,000 tonnes of steam coal. The decrease in mining at the Yakutugol and Southern Kuzbass was partially made up for by the 430,000 tonne increase in mining at Elgaugol with 600,000 tonnes more of coking coal mined year-on-year.

(foreign language) The reason for the decrease in mining at Yakutugol and Southern Kuzbass, apart from shift into new areas, was the earlier insufficient financing of overburden and repair works. In order to restore production volumes starting in mid-2017, the division's facilities were implementing a large-scale program of replenishing their equipment and mining fleet and preparing their reserves for mining.

First, in 2017, our mining facilities acquired and launched over 100 machines and equipment units for our mines, open pits and washing plants. And second, we have signed on contractors for overburden mining at Southern Kuzbass and Yakutugol and are currently holding talks with more contractors to be involved in mining. More new equipment is due to arrive this year.



Our 2018 plan includes increasing mining at Southern Kuzbass by 17% and at Elgaugol by 27%. The output increase at Yakutugol is planned to be more modest, but overburden volumes will more than double, which will enable us to significantly increase mining in the future.

Mining specifics are such that it is impossible to increase mining at the drop of a hat without prior coal development measures, so our active efforts will not yet be reflected in the first quarter 2018 results. However, we expect that positive dynamics will be seen starting with this year's second quarter and later on.

(foreign language) The steel division's output volumes were more stable. Here, most changes were due to our optimization of the product range. Due to a decrease in the share of low-margin product sales, we increased output of high-value-added products: long, flat in railroads, stampings and forgings, products from specialty steels and high alloy and stainless-steel hardware.

(foreign language) The situation in the steel market in the first and the second half of 2017 differed considerably. The beginning of the year was characterized by high cost, as coal and iron ore prices spiked even as many products in our range met with weak demands and low-price levels. The situation improved only in the second half of the year. As such, our results in the last 2 quarters of 2017 were fairly strong. But as a whole, the steel division's 2017 financial results turned out weaker than in 2016.

(foreign language) Maintenance of our output volumes and mustering new product types in the steel division as well as taking measures to restore the mining division's production volumes required an increase in capital expenditure. The group's CapEx was 25% higher in 2017 year-on-year. And I have to say that our 2018 plans include a further CapEx increase.

(foreign language) I would like to dwell now on our plans for 2018. We plan to increase output of Elgaugol up to 5.3 million tonnes and at the universal rolling mill, up to 815, 1-5, thousand tonnes, which means increasing the mill's loads to 70%, 75%.

As for the steel segment, as a whole, we do not plan on stepping up overall production volumes. Our capacities today are well-balanced and well-loaded. But we will continue optimizing our product range, and we'll aim to increase output of stainless rolls. We also plan to increase exports of our rolling mill's products to Europe, where we already export our beams, and we will start shipping rails to Europe in the second half of the year.

(foreign language) Our capital construction plans include, among other projects, a construction of the production line for the multi-strand wire ropes, including those with polymer coating at Beloretsk Metallurgical Plant. This is an import substitution project that we are implementing with the support of Russia's Industrial Development Fund, and it is due to be launched late this year.

We also plan to reconstruct the furnace at Bratsk Ferroalloy Plant, and we'll also continue working on increasing the (inaudible) railroad carrying capacity and Port Posiet's transshipment volumes.

(foreign language) And now let's turn to one topic that is very relevant today and -- which is an extremely high priority for us. This is environmental protection. This year, we have assumed enhanced ecological commitments for our facilities in Chelyabinsk, mainly, Chelyabinsk's Metallurgical Plant and natural coke.

As you are aware, the city is in a difficult environmental situation, and local authorities joined forces with business to work on improving it. We have already scheduled a complex of environment-protection measures, costing a total of RUB 1.4 billion. And in March, we have signed -- we signed an agreement on cooperation between Russia's Federal Supervisory Natural Resources Management Service, Rostekhnadzor, and Chelyabinsk's regional government and Mechel.

We will conduct an independent environmental audit that will help determine what primary measures must be taken to reduce the facility's impact on the environment, and we will add to our ecological program that is being implemented at our Chelyabinsk facilities.

(foreign language) This March, we also completed a major ecological project by shifting Beloretsk Metallurgical Plant's high-strength wire workshop to an acid-free technology. This upgrade reduced the workshop's wastewater volume 8x and ensured the high level of wastewater cleaning. The



plant's transfer to this new technology completely eliminates the plant's negative ecological impact on Bashkortostan's chief water artery, the Belaya River.

On the whole, ecological renovations to Beloretsk Metallurgical Plant's wire rolling facilities are planned to continue until 2023, with investments totaling some RUB 1 billion, including RUB 80 million to be spent this year.

(foreign language) We have also developed measures aimed at minimizing coal dust during transshipment in our modernized Port Posiet. And since 2012, upgrades have been made at Bratsk Ferroalloy plant, where we replaced furnaces, together with gas cleaning units, that enable the plant to ensure that air cleaning is at 99.6%. 1 furnace of the plant's 4 has already been replaced, as I have said, and another is due to be replaced this year. Investment in the furnace's reconstruction totaled some RUB 600 million.

(foreign language) In conclusion, I would like to once again draw your attention to the fact that we continue with our development with upgrading our facilities and mustering new product types, while paying careful heed to the environmental protection.

And now, I want to give the floor to our Chief Financial Officer, Nelli Galeyeva.

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**Nelli R. Galeyeva - Mechel PAO - CFO**

(foreign language) Ladies and gentlemen, welcome to our conference call. I would like to thank our CEO, Oleg Korzhov, for his speech and the overview of the current market situation. And now I want to address the group's financial results on the whole and by each segment. And after I've finished, we will be happy to answer your questions. The presentation is available at [mechel.com](http://mechel.com) website.

(foreign language) In 2017, Mechel achieved very high financial results. Consolidated EBITDA amounted to RUB 81.1 billion, which is 23% higher than the previous year. EBITDA margin is 27.1%, which is also higher than in the previous year. The group's profit attributable to shareholders increased by 62% to RUB 11.6 billion. And operational profit grew by 34% year-on-year, partly due to optimization of administrative and other operational expenditures. Gross profit went up by 7%.

(foreign language) Apart from this major growth in its annual results, Mechel continues to improve its quarterly financial results. Gross profit in the fourth quarter went up 12% quarter-on-quarter to reach RUB 37 billion, while EBITDA went up 16% to RUB 22 billion. Consolidated revenue in the fourth quarter increased by 4% and by 8% in 2017, due to the changes in the sales structure, which ensured higher margin as well as the growth of prices for the group's products, primarily coal.

(foreign language) The growth of coal prices, both domestically and internationally, due to favorable market conditions, had this impact on the mining segment's performance in 2017. The segment's revenue from sales to third parties in 2017 amounted to RUB 100.1 billion, which is 12% high year-on-year. The segment's operational profit in 2017 amounted to RUB 48.2 billion, which is 55% higher than in 2016. The segment's EBITDA went up by RUB 19.5 billion and amounted to RUB 61.4 billion.

(foreign language) The share of our sales on the Asian markets and the mining segment's total revenue from sales to third parties increased from 58% in 2016 to 61% in 2017, mostly attributable to the share of our sales to China, which accounted for 27% in 2016, and already 30% in 2017. This was due to our consistent effort to increase sales to Asia Pacific in general and to the Chinese market in particular.

(foreign language) Throughout last year and early this year, a large number of leased equipment arrived at the deposits, which enables us with a comparatively small CapEx level, to get returns by bringing these machines and equipment into operation and to expect a stable growth of the coal output.

(foreign language) Elgaugol is a company generating operational profit of RUB 4.5 billion and bringing in an additional cash flow of RUB 1.3 billion in 2017. Last year, the Elga coal deposit produced 4.2 million tonnes of coal, with coking coal accounting for nearly 84% of this amount compared to nearly 76% share in 2016. Increasing coking coal output by 25% enabled us almost to double our exports of Elga's coking coal concentrate.

(foreign language) Sales of the steel division's products in the fourth quarter demonstrated positive dynamics as compared to the previous quarter. Prices for ferrosilicon stampings and forgings grew, and the change in the sales structure of the segment's products led to gross profit going up 3% and gross margin, 1%.

On the whole, in 2017, the steel segment continued to increase the share of high value-added products, such as rails and structural shapes in its sales year-on-year, as the range of products made at Chelyabinsk Metallurgical Plant's universal rolling mill expanded.

Favorable market conditions supported sales of flat and long products, stampings and hardware, such as wire and wire ropes as well as the growth of prices for most of the segment's products, both domestically and internationally. These positive factors resulted in a 7% growth of its yearly revenue.

(foreign language) In 2017, there was a significant increase in prices for main metallurgical commodities, such as coke, iron ore concentrate, ferroalloys and electrodes, which had a negative impact on the segment's results. However, a part of the margin was redistributed to the mining segment, which benefited from high prices for its products.

(foreign language) Improvement of the group's financial results in 2017 contributed to the growth of the free cash flow for operating costs, investments and payments on financial obligations. The operating cash flow in 2017 amounted to RUB 63.3 billion, which is nearly 20% higher than in the previous year. And starting from 2017, the group managed to restore and maintain working capital at an optimal level.

(foreign language) Interest accrued last year amounted to RUB 47.6 billion, including RUB 39.2 billion related to loans and borrowings, RUB 1.2 billion related to fines and penalties on loans, borrowings and lease obligations and RUB 4.2 billion related to the put option.

Our financial expenditure went down from RUB 54.2 billion to RUB 47.6 billion due to the average interest rate on our debt going down from 10% to 8.7%. Most of our ruble-denominated debt with the Russian state-owned banks and bonds are tied to the Russian Central Bank's key rate, and its decrease led to the decrease in our interest payments.

(foreign language) Interest paid in 2017 amounted to RUB 32.5 billion, including interest capitalized. The ratio of our interest paid on loans, borrowings and lease obligations is 7.2%. The ratio of interest paid to EBITDA is 40%. Group's net debt, excluding fines and penalties, put option on Elga went down by RUB 7 billion in 2017 and amounted to RUB 426 billion. The net debt-to-EBITDA ratio went down from 6.6 in 2016 to 5.3 in 2017.

(foreign language) The debt structure remained unchanged, while the ruble-denominated part is 68% of our debt and the rest is in the foreign currencies. We'll continue to restructure our debt portfolio.

In September, we refinanced Elgaugol's debts to Vnesheconombank. And we are currently in the final stage of negotiations with lenders on pre-export loan facilities, with all necessary documents due to be signed shortly. We are also in negotiations with lenders who granted loans under insurance coverage by export credit agencies.

Thank you for your attention.

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**Alexey Lukashov**

Thank you. We will now take questions. (Operator Instructions)

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And we'll take our first question.

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### Denis Vorchik - URALSIB Capital LLC, Research Division - Analyst

(foreign language) This is a question from URALSIB. The question is related to writing down of goodwill by almost 6 billion, which brought the profits of the fourth quarter almost to 0. So what was the reason for this write-off? And given that at the end of 2017, goodwill was recorded at about 18 billion and if the prices -- the current prices stay as they are, what are the plans? What are the expectations for the year to come with respect to goodwill?

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### Alexey Lukashov

Nelli Galeyeva will answer.

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### Nelli R. Galeyeva - Mechel PAO - CFO

(foreign language) At the end of fourth quarter of 2017, net profit went down, which was the result of a devaluation test for the assets, which is the mandatory transaction carried out once a year. And as a result of this devaluation test, the goodwill, as you've rightfully pointed out, was decreased to 6 billion. As to the future forecast, it's very difficult to say what will happen by the end of 2018. As I have already said, this devaluation test is carried out once a year based on this procedure and also in view of the available indicators. So it will depend on long-term prices' forecast and the prices on the raw materials. And we are not ready to give any forward-looking statements right now.

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### Operator

And our next question is from Oleg with BCS.

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### Oleg Petropavlovskiy - BCS Financial Group, Research Division - Metals and Mining Senior Analyst

Several questions from me. First of all, can you explain the difference between your CapEx printed in your press release of RUB 11 billion and your cash CapEx of -- for like RUB 6.9 billion. And give us some guidance for 2018, if you can give only cash CapEx guidance, we will appreciate that. And my next question is on your stripping costs. If you can give us some breakdown for your coal assets for 2017, and probably, you have some plans in your budget for 2018. And my last question is about Korshunovsky Gok products and their declined material and cash cost arose. You explained that as -- the reason of geology. But can you give us some guidance what is going to help on this -- with this asset, at least in 2018?

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### Nelli R. Galeyeva - Mechel PAO - CFO

(foreign language)

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### Oleg V. Korzhov - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) To answer your first question with respect to the differences in cash CapEx and CapEx reported, in the press release and in the reports, our actual costs were roughly RUB 6 billion. And the difference can be explained through the following accounting -- IFRS accounting procedure: RUB 800 million were -- it is capitalization of capital repair, and according to IFRS, it has to be accounted for in the CapEx. This year, RUB 3.5 billion, that's financial leasing payments for the equipment that we have already received but the payments are due this -- in this period; and



RUB 0.5 billion is interest paid in relation to capital construction and fixed assets. So once again, our -- I wouldn't call it a difference -- this difference, somewhat paper-based, but I'd say that this difference exists because of certain accounting procedures.

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**Alexey Lukashov**

The second question will be also answered by Oleg Korzhov.

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**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) Okay, to answer your second question with respect to the volume of stripping in 2017 and 2018, as I have already stated, we plan to build up stripping volumes in order to increase production. And let's go asset by asset. We'll start with Yakutugol. In 2017, the total amount of stripping was 21 million cubic meters. In 2018, the plan is to almost double it to bring stripping to 56 million cubic meters. And as I again talked about in my earlier presentation, at the start of the year, we have already signed several contracts with the contractors who will bring their own equipment. So half of this amount will be attributable to the contractors who will carry out this work. And in 2017, we repaired some of the equipment. There will be more equipment leased and brought to the site in 2018. So these are the resources that we plan to utilize at Yakutugol.

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**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) At Elgaugol in 2017, total volume of stripping was 9.6 million cubic meters. In 2018, the plan is to strip 12.7 million cubic meters, and we intend to carry out this job using our own facilities and resources.

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**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) In Southern Kuzbass, in 2017, total stripping was 30 million cubic meters. In 2018, we plan 40 million cubic meters. And just like in case of Yakutugol, 1/2 of this work will be carried out by contractors. We've already signed all the necessary documents with them. And the other half of stripping will be done by ourselves. (foreign language) And last but not the least, Korshunovsky in 2017, stripping was 7.4 million tonnes and the plan for 2018 is 17, 1-7, million tonnes -- I'm sorry, million cubic meters. (foreign language) And now I hope you were able to note down the numbers that I have just given with respect to the volume of stripping. Now let's turn to the cash cost, the cost of stripping work. At Yakutugol, it's RUB 270 per cubic meter. At Elga, it is RUB 250 per cubic meter. At (foreign language) Kuzbass, RUB 260 per cubic meter. At Korshunovsky, RUB 470 per cubic meter. And in 2018, on 2017, we plan to -- we have budgeted for an increase in the cash, in the stripping cash cost by 5%.

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**Oleg Petropavlovskiy** - BCS Financial Group, Research Division - Metals and Mining Senior Analyst

Thank you. And you didn't answer about your plans for 2018 CapEx.

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**Nelli R. Galeeva** - Mechel PAO - CFO

(foreign language)

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**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) The budgeted CapEx as of now is RUB 11.5 billion, including RUB 5 billion for maintenance and replacement of the worn-out equipment, and RUB 6 billion for investment projects. And I will walk you through the investment projects in a short while, and that is based on our cash CapEx, net cash.





**Operator**

And our next question comes from Nikolay, Prosperity Capital Management.

**Nikolay Sosnovskiy**

I've got several questions. First, can you please -- I guess, I suspect this usual question -- provide products splits for particular products you expect to produce in 2018, like coking coal, to try and [define] this sort of mining split and also in the price by enterprises as well total mining volumes. That's my first question.

**Nelli R. Galejeva - Mechel PAO - CFO**

(foreign language)

**Oleg V. Korzhov - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director**

(foreign language) Very well, to answer your question, in 2018, we plan to have coal production of 23 million tonnes, a little more than 23 -- 23.3 million tonnes. By assets, Southern Kuzbass, 9.5 million tonnes; Yakutugol, 8.5 million tonnes; Elgaugol, 5.2 million tonnes, including production of coal concentrate of 10.7 million tonnes. And by assets now: Southern Kuzbass, 4.1; Yakutugol, 4.8; Elgaugol, 1.8 million tonnes. Steam coal, 5.8 million tonnes in total to be produced in the following amounts at: Southern Kuzbass, 0.5 million tonnes; Yakutugol, 3 million tonnes; and Elga, 2.3 million tonnes. And for site and PCI grades, they are only produced at Southern Kuzbass. And our expectation for 2018 is that production will be around 3.8 million tonnes. It's very difficult to comment, the prices, I have already explained in my initial presentation. The market in 2017 was rather favorable, which enabled our facilities to ramp up their production and to increase their shipments. However, at the moment, there is quite a sufficient amount of coal in the market in general, so we can only expect an adjustment of prices. Recently, the price have been already going down somewhat. At the moment, they are, more or less, stabilized. So it's very difficult to forecast prices in 2018. It depends on the Chinese policy. It depends on the stability of shipments from Australia. And in our own projections, we base our projections on the, for 2018, on the average prices for 2017. In the first quarter of this year, the prices were already somewhat higher than in the previous year.

**Nikolay Sosnovskiy**

I just wanted to clarify on coking coal concentrate plans of 10.7 million tonnes. Is it right that you will increase your production from below 8 million tonnes in 2017 to almost 11 in 2018? Is it kind of correct, 4-plus, 4 million tonnes assessment? Or there was something with translation?

**Nelli R. Galejeva - Mechel PAO - CFO**

(foreign language) You heard everything correctly.

**Nikolay Sosnovskiy**

And can you please specify, in this case, the difference from which particular asset did this increase will come?

**Nelli R. Galejeva - Mechel PAO - CFO**

(foreign language)



**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) Well, we need to consider the breakdown by assets, to answer your question. So coking coal concentrate is produced at Elga. And next year -- or this year rather, we plan to add 300,000 tonnes to this production. At Yakutugol, we plan to add 200,000, 300,000 tonnes, maybe a bit more than that. But our main producing asset, in terms of coking coal concentrate, is Southern Kuzbass. In 2017, it produced 2 million tonnes of this product. And in 2018, we plan to bring up this production to almost 4 million tonnes.

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**Nikolay Sosnovskiy**

That's very clear. And my actual next question is it's a follow-up on the previous one in your explanation on stripping volumes. You mentioned on the numbers, the quick back-of-the-envelope calculation gives me kind of 60 million cubic meters of additional stripping, if we take just RUB 300 per cubic meter cost, that would result in -- and correct me if I'm wrong, in \$300 million of additional stripping costs this year versus 2017, all other things being equal. And then this is something like maybe a 1/4 or even 1/3 of your 2017 total EBITDA. So if this calculation is indeed correct, can you help me to understand how you're going to account for this, either in P&L or in free cash flow? You would capitalize this stripping volumes and put them into CapEx, so that would be very helpful.

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**Nelli R. Galeyeva** - Mechel PAO - CFO

(foreign language)

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**Nikolay Sosnovskiy**

Can I just, for a second, I meant the question was plus-60 million cubic meters, not 60. And this was 30% of EBITDA, not kind of total EBITDA.

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**Nelli R. Galeyeva** - Mechel PAO - CFO

(foreign language)

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**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) I'm not sure I can agree with your calculation. I think there should be some mistake in the way you calculated that. My numbers, I beg to disagree.

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**Nikolay Sosnovskiy**

Okay, let's fix this calculation offline, I guess. So that's it for my questions.

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**Nelli R. Galeyeva** - Mechel PAO - CFO

(foreign language)

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**Operator**

(Operator Instructions) And our next question is with Barry with Citi.

**Barry Lee Ehrlich** - Citigroup Inc, Research Division - Director

This is Barry Ehrlich from Citibank. My question is about the increase in cash cost per tonne that you expect, in ruble terms, in 2018, given that you have this additional stripping work. You probably have higher rail energy of staff salary costs, but you also have some operating leverage. And as you lift volumes, perhaps that could lead to a lower cash cost per tonne. Now I'm just speaking only about the coal mining business. Could you comment on that? And I -- my second question is, what is the average expected interest rate in 2018? And can you repeat the industry, the average industry in 2017?

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**Nelli R. Galeyeva** - Mechel PAO - CFO

(foreign language)

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**Alexey Lukashov**

The next question will be answered by Oleg Korzhov.

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**Oleg V. Korzhov** - Mechel PAO - Chairman of the Management Board, CEO, General Director & Director

(foreign language) It is very difficult to give any comments on the average cash cost. You have to understand that such a thing does not really exist because all assets are different, the regions are different, the methods of production are different, and often, they differ even within the same region. So when planning for 2018, we used coefficients that are standard in the industry. I believe that everybody else in the industry were also referring to the same ratios. We expect railroad costs to go up in Russia by 5.5%, roughly. We expect inflation to be around 4%. We think that energy costs will go up by around 3% and personnel costs by some 4%. So on average, we believe that the cash cost in 2018 will go up by 4%, maximum of 5%. So again, it's difficult to answer your question at the moment more accurately than that. And if you request further clarifications or additional information, I'm sure we will be able to arrange that upon request. Thank you.

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**Barry Lee Ehrlich** - Citigroup Inc, Research Division - Director

Can I just ask a quick follow-up?

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**Nelli R. Galeyeva** - Mechel PAO - CFO

(foreign language) Sure.

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**Barry Lee Ehrlich** - Citigroup Inc, Research Division - Director

So just at Southern Kuzbass, where you are planning this very significant expansion in volume, do you expect cash cost in ruble terms to rise in 2018? Unit cash costs.

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**Nelli R. Galeyeva** - Mechel PAO - CFO

(foreign language)

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**Barry Lee Ehrlich** - Citigroup Inc, Research Division - Director

At Southern Kuzbass?



**Nelli R. Galeyeva** - *Mechel PAO - CFO*

(foreign language)

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**Oleg V. Korzhov** - *Mechel PAO - Chairman of the Management Board, CEO, General Director & Director*

(foreign language) I'm not sure I understand whether you're asking about cash cost, cash cost per tonne or you're asking about costs in general, the expenses. Because obviously, when you're expanding your production, your fixed costs should be going down somewhat, and this should also be reflected on the cash cost. However, since at Southern Kuzbass, we intend to increase the volume of stripping, our cash cost at Kuzbass will also go up somewhat.

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**Barry Lee Ehrlich** - *Citigroup Inc, Research Division - Director*

Okay, that answers the question.

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**Alexey Lukashov**

And the second question will be answered by Nelli Galeyeva.

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**Nelli R. Galeyeva** - *Mechel PAO - CFO*

(foreign language) As to the second question regarding the average interest rate. In 2017, it went down from 10% to 8.7%. As of April 2018, our average interest rate for the debt is 8.1% per annum, and there is a downwards trend on it since most of the debt is in rubles. And our ruble-denominated debt is -- and its interest rate is -- are tied to the key rate of the Russian Central Bank, which is declining recently -- has been declining.

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**Operator**

And there appear to be no further questions at this time.

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**Alexey Lukashov**

Since we do not have any further questions, ladies and gentlemen, thank you for taking the time to join Mechel's Full Year 2017 Financial Results Conference Call today. The replay of the call will be available on Mechel's website. If you have any further questions, please contact the Investor Relations office. Thank you, again, from all the team here.

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**Operator**

And this concludes today's call. Thank you for your participation. You may now disconnect.

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