

Mechel OAO
Form 20-F
April 26, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended December 31, 2016

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number 001-32328

MECHEL PAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125167, Russian Federation

(Address of principal executive offices)

Alexey Lukashov, tel.: +7-495-221-8888, e-mail: alexey.lukashov@mechel.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
COMMON AMERICAN DEPOSITARY SHARES, EACH COMMON ADS REPRESENTING TWO COMMON SHARES COMMON SHARES, PAR VALUE	NEW YORK STOCK EXCHANGE
10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE⁽¹⁾
PREFERRED AMERICAN DEPOSITARY SHARES, EACH PREFERRED ADS REPRESENTING ONE-HALF OF A PREFERRED SHARE PREFERRED SHARES, PAR VALUE	NEW YORK STOCK EXCHANGE
10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE⁽²⁾

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

416,270,745 common shares, of which 82,266,622 shares are in the form of common ADSs as of March 31, 2017

138,756,915 preferred shares (including 55,502,766 shares held by Skyblock Limited, a wholly-owned subsidiary of Mechel), of which 9,359,432 shares are in the form of preferred ADSs as of March 31, 2017

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

- (1) Listed, not for trading or quotation purposes, but only in connection with the registration of common ADSs pursuant to the requirements of the Securities and Exchange Commission.
- (2) Listed, not for trading or quotation purposes, but only in connection with the registration of preferred ADSs pursuant to the requirements of the Securities and Exchange Commission.

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Unless the context otherwise requires, references to Mechel refer to Mechel PAO, and references to Mechel group, our group, we, us or our refer to Mechel PAO together with its subsidiaries.

Our business consists of three segments: mining, steel and power. References in this document to segment revenues are to revenues of the segment excluding intersegment sales, unless otherwise noted. References in this document to our sales or our total sales are to third-party sales and do not include intra-group sales, unless otherwise noted.

For the purposes of calculating certain market share data, we have included businesses that are currently part of our group that may not have been part of our group during the period for which such market share data is presented.

The presentation currency of our consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of our consolidated financial statements prepared under U.S. GAAP. The

reason of adopting the Russian ruble as the presentation currency in the consolidated statements

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under IFRS is to allow a greater transparency of our financial and operating performance as it more closely reflects the profile of our revenue and operating income that are mostly generated in Russian rubles.

References to Russian rubles, rubles or RUB are to the currency of the Russian Federation, references to U.S. dollars, \$ or USD are to the currency of the United States and references to euro, or EUR are to the currency of the member states of the European Union that participate in the European Monetary Union.

The term tonne as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds. The term short ton is also used in this document. A short ton is equal to 907 kilograms or 2,000 pounds.

Certain amounts that appear in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables or in the text may not be an arithmetic aggregation of the figures that precede them.

CIS means the Commonwealth of Independent States.

The following table sets forth by business activity the official names and location of our key subsidiaries and their names as used in this document:

Name as Used in This Document	Official Name	Location
<i>Mining</i>		
Mechel Mining	Mechel Mining AO ⁽¹⁾	Russia, Moscow
Southern Kuzbass Coal Company	Southern Kuzbass Coal Company PAO ⁽¹⁾	Russia, Kemerovo region
Yakutugol	Yakutugol Joint-Stock Holding Company ⁽¹⁾	Russia, Sakha Republic
Elgaugol	Elgaugol OOO	Russia, Sakha Republic
Korshunov Mining Plant	Korshunov Mining Plant PJSC ⁽¹⁾	Russia, Irkutsk region
Moscow Coke and Gas Plant	Moscow Coke and Gas Plant JSC ⁽¹⁾	Russia, Moscow region
Mechel Coke	Mechel Coke OOO	Russia, Chelyabinsk region
Port Posiet	Port Posiet JSC ⁽¹⁾	Russia, Primorsk Krai
Port Temryuk	Port Mechel Temryuk OOO	Russia, Krasnodar Krai
<i>Steel</i>		
Chelyabinsk Metallurgical Plant	Chelyabinsk Metallurgical Plant PAO ⁽¹⁾	Russia, Chelyabinsk region
Izhstal	Izhstal OAO	Russia, Republic of Udmurtia
Urals Stampings Plant	Urals Stampings Plant PAO ⁽¹⁾	Russia, Chelyabinsk region
Beloretsk Metallurgical Plant	Beloretsk Metallurgical Plant AO ⁽¹⁾	Russia, Republic of Bashkortostan
Vyartsilya Metal Products Plant	Vyartsilya Metal Products Plant ZAO	Russia, Republic of Karelia
Mechel Nemunas	Mechel Nemunas UAB	Lithuania
Bratsk Ferroalloy Plant	Bratsk Ferroalloy Plant OOO	Russia, Irkutsk region
Port Kambarka	Port Kambarka OAO	Russia, Republic of Udmurtia

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Name as Used in This Document	Official Name	Location
<i>Power</i>		
Southern Kuzbass Power Plant	Southern Kuzbass Power Plant OAO	Russia, Kemerovo region
Kuzbass Power Sales Company	Kuzbass Power Sales Company OAO	Russia, Kemerovo region
Mechel Energo	Mechel Energo OOO	Russia, Chelyabinsk region
<i>Marketing and Distribution</i>		
Mechel Carbon	Mechel Carbon AG	Switzerland, Baar
Mechel Trading	Mechel Trading AG	Switzerland, Baar
Mechel Service Global	Mechel Service Global B.V.	Netherlands
Mechel Service	Mechel Service OOO	Russia, Moscow
<i>Other</i>		
Mecheltrans	Mecheltrans OOO	Russia, Moscow

- (1) The legal organizational form of our Russian subsidiaries and Mechel has been changed in accordance with the current legislation of the Russian Federation.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements, as defined in the safe harbor provisions of the U.S. 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. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words believe, expect, anticipate, intend, estimate, forecast, project, will, may, should and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, Item 3. Key Information Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, and include statements regarding:

strategies, outlook and growth prospects;

the ability to maintain and generate sufficient cash and other liquid resources to meet our operating and debt service requirements;

our ability to comply with the financial covenants in our loan agreements as well as other covenants and restrictions imposed by the existing and future financing arrangements and our ability to attract new financing or refinancing of debt, including an outcome in the ongoing debt restructuring negotiations with our lenders;

the impact of competition;

costs of our acquisitions and ability to realize expected synergies and other benefits;

capital expenditures;

demand for our products;

economic outlook and industry trends;

transactions with related parties;

regulatory compliance;

developments in our markets;

future plans and potential for future growth;

the results of any legal procedures;

the impact of regulatory initiatives; and

the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. See Item 3. Key Information Risk Factors for a discussion of important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements.

Except to the extent required by law, neither we, nor any of our agents, employees or advisers intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

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PART I

Item 1. *Identity of Directors, Senior Management and Advisers*

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

Selected Financial Data

The financial data set forth below as of December 31, 2016, 2015 and 2014, and for the years then ended, have been derived from our consolidated financial statements. Our reporting currency is the Russian ruble and we prepare our consolidated financial statements in accordance with International Financial Reporting Standards (**IFRS**).

The consolidated financial statements for the year ended December 31, 2015 were the first we had prepared in accordance with IFRS. The date of transition to IFRS was January 1, 2014. For periods up to and including the year ended December 31, 2014, we prepared our consolidated financial statements in accordance with U.S. GAAP. Accordingly, we have prepared financial statements that comply with IFRS applicable as of December 31, 2016, together with the comparative periods data for the years ended December 31, 2015 and 2014.

Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have only provided financial statements and financial information for two fiscal years ended December 31, 2015 in the previously filed annual report for the year ended December 31, 2015 as presented under IFRS, we have provided financial statements and financial information for three fiscal years ended December 31, 2016 herein. The selected financial information as of and for the years ended December 31, 2016, 2015 and 2014 set forth below should be read in conjunction with, and is qualified in its entirety by reference to Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and the notes thereto included in this annual report.

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Our results of operations for the periods presented are affected by disposals. See note 1(a) to the consolidated financial statements. The financial data below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and Item 5. Operating and Financial Review and Prospects.

	Year Ended December 31,		
	2016	2015	2014
	(In millions of Russian rubles, unless stated otherwise)		
Consolidated statement of profit (loss) and other comprehensive income (loss) data:			
Revenue	276,009	253,141	243,992
Cost of goods sold	(146,322)	(151,334)	(153,057)
Gross profit	129,687	101,807	90,935
Total selling, distribution and operating income and (expenses), net	(86,997)	(77,555)	(90,028)
Operating profit	42,690	24,252	907
Total other income and (expense), net	(28,539)	(131,380)	(131,994)
Profit (loss) before tax from continuing operations	14,151	(107,128)	(131,087)
Income tax (expense) benefit	(4,893)	(8,322)	8,822
Profit (loss) for the year from continuing operations	9,258	(115,450)	(122,265)
(Loss) profit after tax for the year from discontinued operations, net	(426)	822	(11,702)
Profit (loss) for the year	8,832	(114,628)	(133,967)
Less: profit (loss) attributable to non-controlling interests	1,706	535	(1,263)
Profit (loss) attributable to equity shareholders of Mechel PAO	7,126	(115,163)	(132,704)
Profit (loss) for the year	8,832	(114,628)	(133,967)
Exchange differences on translation of foreign operations	431	287	1,168
Net (loss) gain on available for sale financial assets	(1)	8	2
Re-measurement losses on defined benefit plans	(23)	(194)	(127)
Total comprehensive income (loss) for the year, net of tax	9,239	(114,527)	(132,924)
Total comprehensive income (loss) attributable to non-controlling interests	1,710	537	(1,249)
Total comprehensive income (loss) attributable to equity shareholders of Mechel PAO	7,529	(115,064)	(131,675)
Earnings (loss) per share from continuing operations (in Russian rubles per share) basic and diluted	18	(278)	(290)
	(1)	2	(29)

(Loss) earnings per share from discontinued operations (in Russian rubles per share)

Basic and diluted, earnings (loss) for the year attributable to common equity shareholders of Mechel PAO	17	(277)	(319)
Cash dividends per common share			

Cash dividends per preferred share

Weighted average number of common shares	416,270,745	416,270,745	416,270,745
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Mining segment statement of profit (loss) data⁽¹⁾:

Revenue	121,555	108,723	100,558
Cost of goods sold	(45,040)	(51,280)	(51,435)

Gross profit	76,515	57,442	49,123
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	Year Ended December 31,		
	2016	2015	2014
	(In millions of Russian rubles, unless stated otherwise)		
Total selling, distribution and operating income and (expenses), net	(45,503)	(41,437)	(47,405)
Operating profit	31,012	16,005	1,718
Steel segment statement of profit (loss) data⁽¹⁾:			
Revenue	168,893	153,004	146,867
Cost of goods sold	(126,745)	(119,610)	(115,485)
Gross profit	42,148	33,394	31,382
Total selling, distribution and operating income and (expenses), net	(30,617)	(24,868)	(32,701)
Operating profit (loss)	11,531	8,526	(1,319)
Power segment statement of profit (loss) data⁽¹⁾:			
Revenue	40,625	41,467	39,554
Cost of goods sold	(29,047)	(30,178)	(29,215)
Gross profit	11,578	11,289	10,339
Total selling, distribution and operating income and (expenses), net	(10,877)	(11,250)	(9,922)
Operating profit	701	39	417
Consolidated statement of financial position data (at period end):			
Total assets	325,465	342,071	369,258
Equity attributable to equity shareholders of Mechel PAO	(260,274)	(267,803)	(154,666)
Equity attributable to non-controlling interests	7,687	5,948	8,253
Interest-bearing loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 38,594 million, RUB 47,475 million and RUB 14,615 million as of December 31, 2016, 2015 and 2014, respectively			