Mechel OAO
Form 6-K
July 20, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

July 11, 2007

Commission File Number: 333-119497

MECHEL OAO

(Translation of registrant s name into English)

Krasnoarmeiskaya 1,

Moscow 125167

Russian Federation

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes o No x

Note: Regulation S-T Rule 101(b)(c) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No x

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

MECHEL REPORTS 2007 FIRST QUARTER FINANCIAL AND PRODUCTION RESULTS

Revenues of $1.4 billion

Operating income of $327.7 million

Net income of $205 million, $1.47 per ADR or $0.49 per diluted share

Moscow, Russia   July 11, 2007 **Mechel OAO (NYSE: MTL), a leading Russian integrated mining and steel group, today announced financial and production results for the first quarter ended March 31, 2007.**

US$ thousand	**1Q 2007**		**1Q 2006**		**Change Y-on-Y**	
Revenues	1,416,166		853,518		65.9	%
Net operating income	327,655		58,996		455.4	%
Net operating margin	*23.1*	*%*	*6.9*	*%*		
Net income	205,014		62,881		226.0	%
EBITDA (1)	355,450		134,411		164.5	%
EBITDA margin	*25.1*	*%*	*15.7*	*%*		

(1) See Attachment A.

Igor Zyuzin, Mechel s Chief Executive Officer, commented: The first quarter of 2007 was a successful one for Mechel that continued the strong performance we have seen recently. Coupled with a market environment that continues to be favorable, we increased our production volumes and improved operational performance, which drove significant growth in all aspects of our business when compared to a year ago.

Consolidated Results

Net revenue in the first quarter of 2007 increased 65.9% to $1.4 billion from $853.5 million in the first quarter of 2006, reflecting strong selling prices across the Company s main product categories. Operating income was $327.7 million, or 23.1% of net revenue, an increase of 455.4% over operating income of $59.0 million, or 6.9% of net revenue, in the first quarter of 2006.

For the first quarter of 2007, Mechel reported consolidated net income of $205.0 million, or $1.47 per ADR ($0.49 per diluted share), compared to consolidated net income of $62.9 million, or $0.48 per ADR ($0.16 per diluted share) in the first quarter of 2006.

Consolidated EBITDA was $355.5 million in the first quarter of 2007, compared to $134.4 million a year ago, an increase of 164.5%. The increase in EBITDA was primarily the result of the higher sales volumes in the Company s main product categories, as well as positive pricing dynamics and the impact of steps the Company has taken to improve production efficiency and lower operating costs. Selling expenses decreased to 8.4% of sales for the first quarter or 2007 compared with 12.0% for the same quarter in the prior year as a result of positive changes to the sales structure. General and administrative expense were reduced to 5.4% of sales for the quarter, compared with 7.2% in the first quarter of 2006, due to tighter cost controls.

Please see the attached tables for a reconciliation of consolidated EBITDA to net income.

Mining Segment Results

US$ thousand	1Q 2007	1Q 2006	Change Y-on-Y
Revenues from external customers	421,420	289,459	45.6 %
Intersegment sales	168,354	75,871	121.9 %
Operating income	181,700	29,289	520.4 %
Net income	103,810	27,467	277.9 %
EBITDA	196,229	58,000	238.3 %
EBITDA margin (1)	33.3 %	15.9 %	

(1) EBITDA margin calculation is based on the total revenues of the segment including intersegment sales.

Mining Segment Output

Product	1Q 2007, thousand tonnes	1Q 2007 vs. 1Q 2006
Coal	4,543	13 %
Coking coal	2,223	0 %
Steam coal	2,320	30 %
Iron ore concentrate	1,095	(3)%
Nickel	4.1	22 %

Mining segment revenue from external customers for the first quarter of 2007 totaled $421.4 million, or 29.8% of consolidated net revenue, an increase of 45.6% over segment revenue from external customers of $289.5 million, or 33.9% of consolidated net revenue, in the first quarter of 2006.

Operating income in the first quarter of 2007 in the mining segment was $181.7 million, or 30.8% of total segment revenues, an increase of 520.4% compared to operating income of $29.3 million, or 8.0% of total segment revenues, a year ago. EBITDA in the mining segment for the 2007 first quarter was $196.2 million, an increase of 238.3% compared to EBITDA of $58.0 million a year ago, with an EBITDA margin increase to 33.3% from 15.9% in the 2006 first quarter. Results in the Company s mining segment for the first quarter of 2006 include a one-time extraction tax accrual of $20 million, as previously announced.

Igor Zyuzin commented on the results of the mining segment, Market conditions remained strong in the mining segment, and Mechel continued to implement its strategy aimed at further growing its mining operations. Investments in construction of new mining facilities and modernization of mining equipment allowed us to achieve significant increase in coal output in the first quarter of 2007 as compared to the same period a year ago. We leveraged the strong market conditions and doubled EBITDA margin for the segment to 33.3%. We also increased our nickel output by 22% due to the further optimization of our production processes. Taking into consideration current favorable market conditions, we remain optimistic with regard to the overall outlook for the segment for the remainder of this year.

Steel Segment Results

US$ thousand	1Q 2007	1Q 2006	Change Y-on-Y
Revenues from external customers	994,746	564,059	76.4 %
Intersegment sales	14,636	5,173	182.9 %
Operating income	145,955	29,707	391.3 %
Net income	101,204	35,414	185.8 %
EBITDA	159,222	76,411	108.4 %
EBITDA margin (1)	15.8 %	13.4 %	

(1) EBITDA margin calculation is based on the total revenues of the segment including intersegment sales.

Steel Segment Output

Product	1Q 2007, thousand tonnes	1Q 2007 vs. 1Q 2006
Coke	930	82 %
Pig iron	930	13 %
Steel	1,488	9 %
Rolled products	1,274	19 %
Hardware	158	18 %

Revenues from external customers in Mechel s steel segment increased 76.4% to $994.7 million, or 70.2% of consolidated net revenue, in the first quarter of 2007 as compared to $564.1 million, or 66.1%, in the first quarter of 2006.

For the first quarter of 2007, the steel segment generated operating income of $146.0 million, or 14,5% of total segment revenues, an increase of 391.3% compared to operating income of $29.7 million, or 5.2% of total segment revenues, during the first quarter of 2006. EBITDA in the steel segment for the 2007 first quarter was $159.2 million, an increase of 108.4% when compared to EBITDA of $76.4 million in the 2006 first quarter. The EBITDA margin in the first quarter of 2007 was 15.8%, compared to 13.4% a year ago.

Igor Zyuzin commented, In the steel segment, we continue to focus our efforts on enhancing profitability through modernization of production and control over costs as well as further shifting our sales mix to an increased proportion of value-added, higher margin products. The capital expenditure program which we continue to implement in the steel segment has enabled us to decrease raw material consumption ratios, resulting in reduced production costs and increased production output. We also continued to steadily increase the share of continuously cast steel. At the end of last year we commissioned a new continuous casting machine at Chelyabinsk Metallurgical Plant, and another one was commissioned at our Romanian subsidiary, Mechel Targoviste, in the first quarter of this year.

Recent developments

- In July, Mechel OAO announced the appointment of Stanislav Ploschenko as its Acting Chief Financial Officer. In this position Stanislav Ploschenko replaced Anton Vishanenko.

- In July, Mechel OAO provided additional information regarding its capital expenditure program for 2007-2011. Mechel plans to invest about $1.5 billion in its steel segment and about $1.2 billion in its coal segment during five years.

Igor Zyuzin concluded, Overall, we achieved significant progress in the first quarter of 2007, compared to the first quarter of 2006. We continue to steadily implement our strategy, focusing on modernizing production, increasing output and controlling costs while also capitalizing on the favorable conditions currently seen in our markets. As we carry out our recently announced capital expenditure program, we intend to further focus on increasing operational performance in both segments. Our position as an integrated producer with a diversified product portfolio and broad market base will allow us to flexibly react to the changing market environment, positioning us well for the future.

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Igor Zyuzin concluded, Overall, we achieved significant progress in the first quarter of 2007, compared to the first

Financial Position

Capital expenditure in the first quarter of 2007 amounted to $81.8 million, of which $29.4 million was invested in the mining segment and $52.3 million in the steel segment.

In the first quarter of 2007, Mechel spent $4.2 million on acquisitions, and another $6.1 million was spent on acquisition of minority interest in other subsidiaries.

As of March 31, 2007, total debt(1) was at $408.8 million. Cash and cash equivalents amounted to $209.1 million at the end of the period and net debt amounted to $199.7 million (net debt is defined as total debt outstanding less cash and cash equivalents).

* One American Depositary Share is equivalent to three diluted shares.

The management of Mechel will host a conference call today at 6 p.m. Moscow time (10 a.m. New York time, 3 p.m. London time) to review Mechel s financial results and comment on current operations. The call may be accessed via the Internet at http://www.mechel.com, under the Investor Relations section.

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Mechel OAO

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Mechel is one of the leading Russian mining and metals companies. Mechel unites producers of coal, iron ore, nickel, steel, rolled products, and hardware. Mechel products are marketed domestically and internationally.

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Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Mechel, 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. We do not intend to update these statements. We refer you to the documents Mechel files from time to time with the U.S. Securities and Exchange Commission, including our Form 20-F. These documents contain and identify important factors, including those contained in the section captioned Risk Factors and Cautionary Note Regarding Forward-Looking Statements in our Form 20-F, that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the achievement of anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the impact of competitive pricing, the ability to obtain necessary regulatory approvals and licenses, the impact of developments in the Russian economic, political and legal environment, volatility in stock markets or in the price of our shares or ADRs, financial risk management and the impact of general business and global economic conditions.

Igor Zyuzin concluded, Overall, we achieved significant progress in the first quarter of 2007, compared to the first

(1) Total debt is comprised of short-term borrowings and long-term debt

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Attachments to the 2007 First Quarter Earnings Press Release

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Attachment A

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Non-GAAP financial measures. This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Earnings Before Interest, Depreciation and Amortization (EBITDA) and EBITDA margin. EBITDA represents earnings before interest, depreciation and amortization. EBITDA margin is defined as EBITDA as a percentage of our net revenues. Our EBITDA may not be similar to EBITDA measures of other companies; is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions and other investments and our ability to incur and service debt. While interest, depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the metals and mining industry. EBITDA can be reconciled to our consolidated statements of operations as follows:

US$ thousands	**1Q 2007**	**1Q 2006**
Net income	205,014	62,881
Add: Depreciation, depletion and amortization	52,856	41,515
Interest expense	7,945	11,349
Income taxes	89,635	18,666
Consolidated EBITDA	355,450	134,411

EBITDA margin can be reconciled as a percentage to our Revenues as follows:

US$ thousands	**1Q 2007**		**1Q 2006**	
Revenue, net	1,416,166		853,518	
EBITDA	355,450		134,411	
EBITDA margin	25.1	%	15.7	%

Igor Zyuzin concluded, Overall, we achieved significant progress in the first quarter of 2007, compared to the first

Consolidated Balance Sheets

(in thousands of U.S. dollars, except share amounts)

	March 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	**$ 209,050**	**$ 172,614**
Trading securities	**258,453**	**270,964**
Accounts receivable, net of allowance for doubtful accounts of $21,844 as of 31/03/2007 and $19,592 as of 31/12/2006	**274,162**	**191,172**
Due from related parties	**743**	**545**
Inventories	**659,576**	**653,079**
Deferred cost of inventory in transit	**12,391**	**14,125**
Current assets of discontinued operations	**9**	**9**
Deferred income taxes	**4,436**	**7,922**
Prepayments and other current assets	**417,679**	**324,600**
Total current assets	**1,836,499**	**1,635,030**
Long-term investments in related parties		

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