

# Mechel Delays \$1.25Bln Mining Sale

By [The Moscow Times](#)

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Indebted Russian steel group Mechel has backed off from selling up to 25 percent of its mining division due to market conditions, sources with knowledge of the matter said.

The New York-listed coal and steel group, one of Russia's largest, has had to cut investments and put non-core assets on the market to service more than \$9 billion in debt, amassed while expanding operations before the 2008 financial crisis sent steel and coal prices tumbling.

But three sources said Mechel, whose mining division includes the Elga coal deposit in Siberia, has now put on hold the sale of a stake in the division until later in 2013 following months of negotiations with potential buyers. A sale had been valued at up to \$1.25 billion.

Mechel is awaiting an improvement in coal prices and wants more time for a complex valuation process to be completed.

"They could return to the sale process later this year," one of the sources said.

While Mechel has not abandoned the sale, another of the sources said potential suitors, which have included some large Southeast Asian steel producers, had requested increased detail on the assets before progressing.

A second source said the sale process was on standby, "rather than died off or inactive".

"To be fair the process is going a bit slowly, but it's a complex project and the market is slow," the source added.

Mechel declined to comment on the sale process.

The company had already considered listing its Mechel Mining arm, though plans were put on hold in the aftermath of the financial crisis, prompting it to consider a trade sale instead.

The company said last year it might sell up to 25 percent to a strategic partner in order to speed up the development of the Elga deposit during 2013. Potential suitors include China's Baosteel and Korea's Posco, one of the largest consumers of Mechel's coal.

However, the sources said neither of these prospective buyers was likely to make a quick decision in the current environment.

Elga is one of Russia's prize mining assets and one of the world's largest coking coal deposits — a giant field whose development has for decades been constrained by insufficient transport links and difficulties delivering material.

Mechel has said publicly it does not generate enough cash to fully develop Elga alone, but has also asked state-owned bank VEB for \$2 billion to \$2.5 billion of project financing, which would allow it to pursue work at Elga without a sale.

A VEB spokeswoman said the application was being considered.

A source close to Mechel said VEB was not expected to make a decision on the matter before a board meeting that is expected to be held in September.

Under growing pressure to tackle its debts, Mechel could also consider the separate sale of its North American coal business, according to one of the sources close to the matter, which consists of four open pits and four underground mines in the central Appalachian mountains.

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