



**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

for the six months ended June 30, 2019

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of
Mechel PAO

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mechel PAO and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as of June 30, 2019, the interim condensed consolidated statement of profit (loss) and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months then ended, and selected explanatory notes (interim financial information).

Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



Совершенство бизнеса,
улучшаем мир

Emphasis of matter

We draw attention to Note 4 to the interim condensed consolidated financial statements, which indicates that, as of June 30, 2019, the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks as of June 30, 2019. These events or conditions, along with other matters as set forth in Note 4 to the interim condensed consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4 to the interim condensed consolidated financial statements. Our conclusion is not modified in respect of this matter.

A.A. Shlenkin
Partner
Ernst & Young LLC

August 15, 2019

Details of the entity

Name: Mechel PAO
Record made in the State Register of Legal Entities on March 19, 2003, State Registration Number 1037703012896.
Address: Russia 125167, Moscow, Krasnoarmeyskaya street, 1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND
OTHER COMPREHENSIVE INCOME
for the six months ended June 30, 2019

(All amounts are in millions of Russian rubles, unless stated otherwise)

	Notes	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Revenue from contracts with customers	12	153,326	157,038
Cost of sales		(94,022)	(85,384)
Gross profit	12	59,304	71,654
Selling and distribution expenses		(27,549)	(28,851)
Allowance for expected credit losses on financial assets		(449)	(528)
Taxes other than income taxes		(2,208)	(2,396)
Administrative and other operating expenses		(8,664)	(7,885)
Other operating income		325	647
Total selling, distribution and operating income and (expenses), net		(38,545)	(39,013)
Operating profit	12	20,759	32,641
Finance income	11	490	7,863
Finance costs including fines and penalties on overdue loans and borrowings and leases payments	11	(19,989)	(21,445)
Foreign exchange gain (loss), net		14,630	(11,580)
Share of profit (loss) of associates, net		11	36
Other income		71	401
Other expenses		(370)	(171)
Total other income and (expense), net		(5,157)	(24,896)
Profit before tax		15,602	7,745
Income tax expense	8	(2,168)	(2,465)
Profit for the period		13,434	5,280
Attributable to:			
Equity shareholders of Mechel PAO		12,745	4,693
Non-controlling interests		689	587
Other comprehensive income			
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods, net of income tax</i>		(839)	(321)
Exchange differences on translation of foreign operations		(839)	(321)
<i>Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods, net of income tax</i>		(248)	6
Re-measurement of defined benefit plans		(248)	6
Other comprehensive loss for the period, net of tax		(1,087)	(315)
Total comprehensive income for the period, net of tax		12,347	4,965
Attributable to:			
Equity shareholders of Mechel PAO		11,664	4,378
Non-controlling interests		683	587
Earnings per share			
Weighted average number of common shares		416,270,745	416,270,745
Basic and diluted, profit for the period attributable to common equity shareholders of Mechel PAO (Russian rubles per share)		30.62	11.27

Chief Executive Officer of Mechel PAO



Oleg V. Korzhov



August 15, 2019

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of June 30, 2019

(All amounts are in millions of Russian rubles)

	Notes	June 30, 2019 (unaudited)	December 31, 2018
Assets			
Non-current assets			
Property, plant and equipment.....	7	195,729	189,879
Mineral licenses.....		31,589	32,068
Goodwill and other intangible assets.....		16,818	16,883
Investments in associates.....		304	293
Deferred tax assets.....	8	7,345	5,488
Other non-current assets.....		623	630
Non-current financial assets.....		231	244
Total non-current assets.....		252,639	245,485
Current assets			
Inventories.....		42,793	43,423
Income tax receivables.....		61	121
Trade and other receivables.....		20,338	17,612
Other current assets.....		6,877	8,673
Other current financial assets.....		313	508
Cash and cash equivalents.....		3,772	1,803
Total current assets.....		74,154	72,140
Total assets.....		326,793	317,625
Equity and liabilities			
Equity			
Common shares.....		4,163	4,163
Preferred shares.....		833	833
Additional paid-in capital.....		24,378	24,378
Accumulated other comprehensive income.....		690	1,771
Accumulated deficit.....		(263,418)	(274,186)
Equity attributable to equity shareholders of Mechel PAO.....		(233,354)	(243,041)
Non-controlling interests.....		10,457	9,846
Total equity.....		(222,897)	(233,195)
Non-current liabilities			
Loans and borrowings.....	6	10,001	6,538
Lease liabilities.....	3, 6	8,115	2,413
Other non-current financial liabilities.....		46,488	44,510
Other non-current liabilities.....		112	120
Pension obligations.....		4,076	3,819
Provisions.....		4,529	3,719
Deferred tax liabilities.....		13,623	13,506
Total non-current liabilities.....		86,944	74,625
Current liabilities			
Loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 10,149 million and RUB 9,877 million as of June 30, 2019 and December 31, 2018, respectively.....	6	390,287	412,294
Trade and other payables.....		37,366	34,800
Lease liabilities.....	3, 6	8,234	5,880
Income tax payable.....		8,923	6,425
Taxes and similar charges payable other than income tax.....		7,132	6,106
Advances received and other current liabilities.....		4,814	5,096
Pension obligations.....		797	772
Provisions.....		5,193	4,822
Total current liabilities.....		462,746	476,195
Total liabilities.....		549,690	550,820
Total equity and liabilities.....		326,793	317,625

Chief Executive Officer of Mechel PAO _____

Oleg V. Korzhov

August 15, 2019

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.



MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended June 30, 2019

(All amounts are in millions of Russian rubles unless shares numbers)

		Attributable to equity shareholders of Mechel PAO								
Notes	Common shares		Preferred shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
	Shares Quantity	Amount	Shares Quantity	Amount						
	416,270,745	4,163	83,254,149	833	24,378	(285,427)	1,303	(254,750)	8,928	(245,822)
As of January 1, 2018	-	-	-	-	-	4,693	-	4,693	587	5,280
Profit for the period										
<i>Other comprehensive income</i>										
Re-measurement of defined benefit plans	-	-	-	-	-	-	6	6	-	6
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(321)	(321)	-	(321)
Total comprehensive income (loss) for the period	-	-	-	-	-	4,693	(315)	4,378	587	4,965
Dividends declared to equity shareholders of Mechel PAO										
10	-	-	-	-	-	(1,387)	-	(1,387)	-	(1,387)
As of June 30, 2018 (unaudited)	416,270,745	4,163	83,254,149	833	24,378	(282,121)	988	(251,759)	9,515	(242,244)

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended June 30, 2019 (continued)
(All amounts are in millions of Russian rubles unless shares numbers)

Attributable to equity shareholders of Mechel PAO

Notes	Common shares		Preferred shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Equity attributable to shareholders of Mechel PAO		Non-controlling interests	Total equity
	Shares Quantity	Amount	Shares Quantity	Amount				Equity attributable to shareholders of Mechel PAO	Non-controlling interests		
As of January 1, 2019.....	416,270,745	4,163	83,254,149	833	24,378	(274,186)	1,771	(243,041)	9,846	(233,195)	
Adjustment on initial application of IFRS 16..... 3	-	-	-	-	-	(461)	-	(461)	(72)	(533)	
As of January 1, 2019 adjusted for the effect of IFRS 16 (unaudited)	416,270,745	4,163	83,254,149	833	24,378	(274,647)	1,771	(243,502)	9,774	(233,728)	
Profit for the period.....	-	-	-	-	-	12,745	-	12,745	689	13,434	
<i>Other comprehensive income</i>											
Re-measurement of defined benefit plans.....	-	-	-	-	-	-	(242)	(242)	(6)	(248)	
Exchange differences on translation of foreign operations.....	-	-	-	-	-	-	(839)	(839)	-	(839)	
Total comprehensive income (loss) for the period.....	-	-	-	-	-	12,745	(1,081)	11,664	683	12,347	
Dividends declared to equity shareholders of Mechel PAO	-	-	-	-	-	(1,516)	-	(1,516)	-	(1,516)	
As of June 30, 2019 (unaudited)	416,270,745	4,163	83,254,149	833	24,378	(263,418)	690	(233,354)	10,457	(222,897)	



Chief Executive Officer of Mechel PAO _____ Oleg V. Korzhov

August 15, 2019

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended June 30, 2019
(All amounts are in millions of Russian rubles)

	Notes	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Cash flows from operating activities			
Profit for the period		13,434	5,280
<i>Adjustments to reconcile profit to net cash provided by operating activities</i>			
Depreciation of property, plant and equipment and amortisation of mineral licenses and other intangible assets		7,183	6,991
Foreign exchange (gain) loss, net		(14,630)	11,580
Deferred income tax benefit	8	(1,672)	(678)
Changes in allowance for expected credit losses and write-off of trade and other receivables and payables, net		385	531
Write-off of inventories to net realisable value		621	710
Impairment of goodwill and other non-current assets and loss on write-off of non-current assets.....		216	252
Finance income.....	11	(490)	(7,863)
Finance costs including fines and penalties on overdue loans and borrowings and lease payments	11	19,989	21,445
Provisions for legal claims, taxes and other provisions		2,775	1,157
Other.....		204	27
<i>Changes in working capital items</i>			
Trade and other receivables		(3,952)	(1,023)
Inventories		(2,190)	(4,221)
Trade and other payables		2,231	736
Advances received.....		(275)	932
Taxes payable and other liabilities.....		2,725	1,588
Other current assets		1,407	(139)
Income tax paid		(1,165)	(2,501)
Net cash provided by operating activities		26,796	34,804
Cash flows from investing activities			
Interest received		56	37
Royalty and other proceeds associated with disposal of subsidiaries		17	3
Proceeds from loans issued and other investments		310	5
Proceeds from disposals of property, plant and equipment		207	64
Purchases of property, plant and equipment		(2,584)	(2,155)
Purchases of intangible assets.....		-	(150)
Interest paid, capitalised		(92)	(267)
Net cash used in investing activities		(2,086)	(2,463)
Cash flows from financing activities			
Proceeds from loans and borrowings, including proceeds from factoring arrangement of RUB 156 million and RUB 3,193 million for the six months ended June 30, 2019 and 2018, respectively.....		7,130	4,054
Repayment of loans and borrowings, including payments of factoring arrangement of RUB 2,066 million and nil for the six months ended June 30, 2019, and 2018, respectively		(11,767)	(15,256)
Dividends paid to non-controlling interests.....		(6)	(5)
Interest paid, including fines and penalties.....		(15,811)	(16,818)
Repayment of lease obligations		(833)	(1,474)
Effect of sale and leaseback transactions.....		87	-
Deferred payments for acquisition of assets		(52)	(406)
Deferred consideration paid for the acquisition of subsidiaries in prior periods.....		(361)	(2,393)
Net cash used in financing activities		(21,613)	(32,298)
Foreign exchange (gain) loss on cash and cash equivalents, net.....		(608)	37
Changes in allowance for expected credit losses on cash and cash equivalents		(16)	(32)
Net increase in cash and cash equivalents		2,473	48
Cash and cash equivalents at beginning of period		1,803	2,452
Cash and cash equivalents, net of overdrafts at beginning of period		380	1,223
Cash and cash equivalents at end of period		3,772	2,936
Cash and cash equivalents, net of overdrafts at end of period		2,853	1,271

Chief Executive Officer of Mechel PAO

Oleg V. Korzhov

August 15, 2019

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.



MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2019

(All amounts are in millions of Russian rubles, unless stated otherwise)

1. Corporate information

(a) Information

Mechel PAO (“Mechel”, formerly – Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies owned by two individual shareholders (the “Controlling Shareholders”). During 2006, one of the Controlling Shareholders sold all his Mechel’s stock to the other Controlling Shareholder, Igor V. Zyuzin. Igor V. Zyuzin with his family members is the ultimate controlling party. In accordance with the changes in the Civil Code of the Russian Federation Mechel has registered changes in its Charter on March 17, 2016 and changed its name from Mechel OAO to Mechel PAO. The registered office is located at Krasnoarmeyskaya st. 1, Moscow, 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the “Group”. Set forth below is a summary of the Group’s primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at June 30, 2019
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	January 1999	99.1%
Chelyabinsk Metallurgical Plant (CMP).....	Russia	Steel products	December 2001	94.2%
Vyartsilya Metal Products Plant (VMPP).....	Russia	Steel products	May 2002	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 2002	94.8%
Urals Stampings Plant (USP).....	Russia	Steel products	April 2003	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	October 2003	90.0%
Mechel Nemunas (MN).....	Lithuania	Steel products	October 2003	100.0%
Mechel Energo	Russia	Power sales	February 2004	100.0%
Port Posiet	Russia	Transshipment	February 2004	97.8%
Izhstal	Russia	Steel products	May 2004	90.0%
Port Kambarka.....	Russia	Transshipment	April 2005	90.4%
Mechel Service.....	Russia	Trading	May 2005	100.0%
Mechel Coke.....	Russia	Coke production	June 2006	100.0%
Moscow Coke and Gas Plant (Moskoks).....	Russia	Coke production	October 2006	99.5%
Southern Kuzbass Power Plant (SKPP).....	Russia	Power generation	April 2007	98.3%
Kuzbass Power Sales Company (KPSC).....	Russia	Electricity distribution	June 2007	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferrosilicon production	August 2007	100.0%
Yakutugol	Russia	Coal mining	October 2007	100.0%
Port Temryuk.....	Russia	Transshipment	March 2008	100.0%
Mechel Carbon AG.....	Switzerland	Trading	April 2008	100.0%
HBL Holding GmbH (HBL).....	Germany	Trading	September 2008	100.0%
Mechel Service Stahlhandel Austria GmbH and its subsidiaries	Austria	Trading	September 2012	100.0%
Elgaugol	Russia	Coal mining	August 2013	51.0%**
Elga-road	Russia	Railroad transportation	January 2016	51.0%**

* Date, when a control interest was acquired or a new company established.

** In 2016, the Group sold 49% stakes in Elgaugol and Elga-road to Gazprombank. Simultaneously with this transaction, the Group granted to Gazprombank a put option to sell 49% stakes in these companies to the Group. The transaction in fact represents a financial liability, and these entities are consolidated based on 100% ownership.

(b) Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity (generation and distribution) and heat power generation), and conducts operations in Russia, the CIS countries, Europe and Asia Pacific. The Group sells its products within Russia and foreign markets. Through acquisitions, the Group has added various businesses to explore new opportunities and build an integrated Group of steel, mining, ferroalloy and power companies. The Group operates in a highly competitive and cyclical industries; any local or global downturn in the industries may have an adverse effect on the Group’s results of operations and financial condition. While the Group will utilize funds from operations, it expects to continue to rely on operating cash flow and long-term debt to finance major investment projects, focus on refinancing and restructuring of the loan portfolio and other financing sources for its capital needs. As discussed in Notes 4, management believes that the Group will secure adequate financing.

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)
for the six months ended June 30, 2019
(All amounts are in millions of Russian rubles, unless stated otherwise)

(c) Authorisation for issuance

These interim condensed consolidated financial statements as of June 30, 2019 and for the six months then ended were authorised for issuance on August 15, 2019.

(d) Seasonality

The Group's business is not significantly affected by seasonality. Therefore, the additional disclosure of financial information for the 12-month period ended on the interim reporting date, encouraged by IAS 34 *Interim Financial Reporting* ("IAS 34"), is not presented.

2. Basis of preparation of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as of December 31, 2018.

The interim condensed consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

The interim condensed consolidated financial statements of the Group comply with the Russian Federal Law No. 208 *On Consolidated Financial Statements* (Law "208-FZ"), which was adopted on July 27, 2010. The Law 208-FZ provides the legal basis for certain entities to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and subsequently endorsed for use in the Russian Federation. As of June 30, 2019, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia.

Reclassifications and rounding

Certain reclassifications have been made to the prior periods' consolidated financial statements to conform to the current period presentation. Such reclassifications affect the presentation of certain items in the interim condensed consolidated statement of financial position, interim condensed consolidated statement of profit (loss) and other comprehensive income, interim condensed consolidated statement of cash flows and notes to the interim condensed consolidated financial statements and have no impact on net income or equity.

All amounts disclosed in these interim condensed consolidated financial statements and notes have been rounded to the nearest millions of Russian rubles units unless otherwise stated.

3. Changes to the Group's accounting policies

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of the new standard effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group applies, for the first time, IFRS 16 *Leases* ("IFRS 16"). As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations (IFRIC 23 *Uncertainty over Income Tax Treatment*, amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*, amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, amendments to IFRS 3 *Business Combinations*, amendments to IAS 1 and IAS 8 *Definition of Material*) and annual improvements 2015-2017 cycle (IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, IAS 23

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

for the six months ended June 30, 2019

(All amounts are in millions of Russian rubles, unless stated otherwise)

Borrowing Costs) apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases* (“IAS 17”), IFRIC 4 *Determining whether an Arrangement Contains a Lease* (“IFRIC 4”), SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee should recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee should generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor’s accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group applied IFRS 16 from January 1, 2019 retrospectively with a cumulative effect recognised at the date of initial application. The right-of use assets were measured at the amount equal to the lease liability adjusted for the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as of December 31, 2018. The Group has applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group has used the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application. The lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term. Also, the Group has used the following practical expedient: direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.

In previous years, the majority of the Group’s outstanding short-term and long-term lease contracts were cancellable. IAS 17 requires disclosing operating lease commitments for non-cancellable leases only, while under IFRS 16, the Group is also required to include in lease liabilities the payments relating to the term periods covered by an option to terminate the lease if the lessee is reasonably certain not exercise that option. The significant accounting judgements used in recognition of leases is determination of terms of lease contracts. Lease terms were determined based on the contract terms, terms of rehabilitation obligations and reasonable terms for production need to lease the specialised asset.

The impact on the interim condensed consolidated statement of financial position (increase/(decrease)) as of January 1, 2019 is presented in the table below:

	Millions of Russian rubles
Assets	
Property, plant and equipment (right-of-use assets).....	2,698
Deferred tax assets.....	28
Total assets	2,726
Liabilities	
Non-current lease liabilities.....	3,125
Current lease liabilities.....	134
Total liabilities	3,259
Net impact on equity	(533)

The net impact on equity is attributable to the impairment of right-of-use assets at cash-generating units (CGU) for which impairment of non-current assets was identified and recognized as of December 31, 2018.

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

for the six months ended June 30, 2019

(All amounts are in millions of Russian rubles, unless stated otherwise)

On adoption of IFRS 16, the Group has recognised lease liabilities in relation to leases which had previously been classified as operating lease under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

The lease liabilities as of January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	Millions of Russian rubles
Operating lease commitments of RUB 7,513 million (total rentals payable of RUB 60,911 million excluding leases to explore or use mineral deposits and other facilities of RUB 53,398 million) discounted at 9.2% as of January 1, 2019	2,647
Commitments relating to leases previously classified as finance leases	8,293
Commitments relating to short-term leases	(73)
Adjustments as a result of a different treatment of extension and termination options, net	685
	11,552
Lease liabilities as of January 1, 2019	11,552

From the date of initial application of IFRS 16, the right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities and recognized within property, plant and equipment. The majority of right-of-use assets are represented by land and producing equipment. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The Group will continue to use practical expedients which were applied by the Group at the date of initial application of the new standard, whereas the direct costs will be included in the measurement of the right-of-use asset at the commencement date after initial application. The depreciation on right-of-use assets is recognized within cost of sales, selling and distribution expenses, administrative and other expenses based on the function of the related asset. The interest expense on lease liabilities is recognised within finance costs.

4. Going concern

As of June 30, 2019, the Group's total liabilities exceeded total assets by RUB 222,897 million.

As of June 30, 2019, restructuring was not finalized with respect to the Group's credit facilities with ECA-covered loans creditors and therefore the Group was not in compliance with the payment schedules under certain credit facilities and a number of financial and non-financial covenants contained in the Group's loan agreements totaling to RUB 382,579 million of the Group's debt. As of June 30, 2019, the Group's debt payable on demand was RUB 382,579 million, including RUB 296,379 million of long-term debt classified as short-term debt as of that date because debt restructuring was not finalized with respect to the Group's credit portfolio and due to contractual cross-default provisions, and RUB 2,275 million of fines and penalties accrued on overdue loans and overdue interest. As of the date of approval of these interim condensed consolidated financial statements, these breaches constitute an event of default and, as a result, the lenders may request accelerated repayment of a substantial portion of the Group's debt. As of the date of approval of these interim condensed consolidated financial statements, the Group did not have sufficient own resources to enable it to comply with such accelerated repayment requests immediately or make payments in 2020 in accordance with the schedules agreed on loans restructured earlier.

The management has concluded that the existing uncertainty about the Group's availability of free cash flow for repayment or ability to refinance and restructure current liabilities described above represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. The management believes that the Group will achieve an agreement on restructuring with all of its lenders and secure adequate financing to continue in operational existence in the foreseeable future. The management's strategy includes enhancement of crude steel production, increase in sales of the major steel products as well as diversifying products range into specialty products, rails and beams targeting higher marginal market niches. Together with the further development of the Group's mining assets providing additional volumes of high-grade coking coal both to the Russian consumers and to export markets the Group expects it to result in an increase in profitability. The Group's detailed monthly operational plans include further optimization of the costs structure and on-going control over the production costs and selling expenses.

The economic environment and economic conditions in the major segments of the Group's operations retain uncertainty about the level of demand for the Group's products, the pricing of major products mined or manufactured by the Group, operating and financial results, the availability of free cash flow for repayment or ability to refinance and restructure current liabilities.

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The interim condensed consolidated financial statements have been prepared assuming that the Group will continue as a going concern. Accordingly, the interim condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recognised asset amounts, the amounts and classification of liabilities or any other adjustments that might result in the Group being unable to continue as a going concern.

5. Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial liabilities that are carried in the interim condensed consolidated financial statements:

	Level	June 30, 2019 (unaudited)		December 31, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost					
Floating rate loans and borrowings.....	3	373,312	354,085	384,608	356,444
Bonds.....	1	8,985	8,876	11,195	10,876
Fixed rate loans and borrowings.....	3	17,991	17,166	23,029	21,852
Other non-current financial liabilities.....	3	46,488	43,688	44,510	40,528
Total.....		446,776	423,815	463,342	429,700

The fair value of loans and borrowings was calculated based on the present value of future principal and interest cash flows, discounted at the Group's interest rates adjusted for risk premium at the reporting dates (Level 3).

Management assessed that the fair values of cash and cash equivalents, trade and other receivables (other than arising from provisionally priced contracts), trade and other payables and bank overdrafts approximate their carrying amounts largely due to the short-term maturities of these instruments.

As of June 30, 2019 and December 31, 2018, trade receivables of RUB 1,741 million and RUB 1,938 million arising from provisionally priced contracts were measured at fair value through profit or loss upon recognition (Level 2).

The fair value of the financial assets and liabilities is recognised at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

6. Loans and borrowings and lease liabilities

The Group has the following principal and interest amounts outstanding for loans and borrowings:

Short-term borrowings and current portion of long-term debt	June 30, 2019 (unaudited)		December 31, 2018	
	Interest rate, %	Amount of outstanding debt	Interest rate, %	Amount of outstanding debt
In Russian rubles				
Banks and financial institutions.....	9.0-9.6	1,053	9.3-9.6	3,634
Corporate lenders.....	—	—	6.7	10
Weighted average interest rate for the period.....	9.3		9.4	
In euro				
Banks and financial institutions.....	1.3-2.0	698	1.3-2.8	580
Corporate lenders.....	—	—	3.0	22
Weighted average interest rate for the period.....	1.3		1.5	
Current portion of long-term loans and borrowings	—	378,387	—	398,171
Interest payable.....	—	7,874	—	7,749
Fines and penalties on overdue amounts	—	2,275	—	2,128
Total short-term borrowings and current portion of long-term debt		390,287		412,294

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	June 30, 2019(unaudited)		December 31, 2018	
	Interest rate, %	Amount of outstanding debt	Interest rate, %	Amount of outstanding debt
Long-term debt				
In Russian rubles				
Banks and financial institutions.....	1.0-9.8	243,972	5.0-10.0	242,499
Bonds issue.....	8.0-11.9	8,799	8.0-12.3	10,979
Corporate lenders.....	6.7	42	6.7	73
Weighted average interest rate for the period.....	9.0		9.3	
In U.S. dollars				
Banks and financial institutions.....	4.0-9.6	48,080	3.9-9.9	54,719
Corporate lenders	—	—	3.0	138
Weighted average interest rate for the period.....	8.8		8.6	
In euro				
Banks and financial institutions.....	0.8-7.0	87,495	0.8-7.0	96,301
Weighted average interest rate for the period.....	4.8		4.8	
Current part of long-term loans and borrowings.....	—	(378,387)	—	(398,171)
Total long-term debt.....		10,001		6,538

Aggregate scheduled maturities of the debt outstanding as of June 30, 2019 were as follows:

Payable by	
On demand	382,579
Within the next 12 months (current portion)	7,708
Between 1 and 2 years	6,260
Between 2 and 3 years	3,647
Thereafter	94
Total.....	400,288

Lease liabilities

In June 2019 the Group has extended a contract for lease of railway carriages until July 2021 resulting in additional right-of-use assets and lease liabilities recognized in the amount of RUB 4,862 million.

Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but not limited to, financial ratios, minimum value of shareholders' equity and certain cross-default provisions. The covenants also include, among other restrictions, limitations on: (1) additional borrowings; (2) amount of dividends in common and preferred shares; and (3) amounts that can be spent for capital expenditures, new investments and acquisitions. Covenant breaches if not waived generally permit lenders to demand accelerated repayment of principal and interest.

The Group was required to comply with the following restrictive covenants under the most significant loan agreements with the Russian state-owned banks as of June 30, 2019¹:

Restrictive covenants	Requirement	Actual as of June 30, 2019 (unaudited)
Group's EBITDA to Net Interest Expense	Shall not be less than 2.0:1.0	1.59:1.0
Group's EBITDA to Consolidated Financial Expense	Shall not be less than 2.0:1.0	1.62:1.0
Group's Net Debt to EBITDA.....	Shall not exceed 6.0:1.0	7.33:1.0
Group's Total Debt to EBITDA	Shall not exceed 3.5:1.0	7.19:1.0
Group's Cash flow from operating activities to EBITDA	Shall not be less than 0.8:1.0	0.93:1.0
Group's EBITDA to Revenue	Shall not be less than 0.2:1.0	0.21:1.0

¹ Net Debt and Total Debt are calculated according to the respective definitions set by the credit agreements. Generally, Total Debt includes outstanding loans, lease, bonds and other finance liability balances; Net Debt is equal to Total Debt less cash and cash equivalents.

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As of June 30, 2019, the Group was not in compliance with several financial and non-financial covenants set by the loan agreements with the Russian state-owned banks. Also, the Group was not in compliance with covenants contained in the loan agreements with foreign banks (such as Net Borrowings to EBITDA ratio, EBITDA to Net Interest Expense ratio and targeted amount of Adjusted Shareholder's Equity). There was a default on payments of principal and interest in the amount of RUB 24,737 million and RUB 4,384 million, respectively, which is represented primarily by ECA-covered loans (represented by the credit facilities of BNP Paribas, ING, NatWest, Commerzbank and other international banks). As a result, the long-term debt of RUB 296,379 million was reclassified to short-term liabilities as of June 30, 2019.

7. Property, plant and equipment

The Group acquired property, plant and equipment in the amount of RUB 9,587 million and RUB 4,865 million for the six months ended June 30, 2019 and 2018, respectively, including property under construction of RUB 2,898 million and RUB 3,089 million for the six months ended June 30, 2019 and 2018, respectively. Construction-in-progress put into operation amounted to RUB 3,140 million and RUB 1,730 million, for the six months ended June 30, 2019 and 2018, respectively.

The amount of acquired property, plant and equipment during the six months ended June 30, 2019 included right-of-use assets in the amount of RUB 6,027 million, mainly represented by railway carriages. The Group recognised rent expense from short-term leases of RUB 1,397 million for the six months ended June 30, 2019.

Depreciation charge included in the interim condensed consolidated statement of profit (loss) and other comprehensive income amounted to RUB 6,532 million for the six months ended June 30, 2019 (for the six months ended June 30, 2018: RUB 6,250 million). The depreciation charge during the six months ended June 30, 2019 includes depreciation charge of right-of-use assets of RUB 966 million.

The management analysed the financial performance of cash generating units for the six months ended June 30, 2019 and concluded that no changes are required in the assumptions and estimates applied to the impairment of goodwill and other non-current assets analysis as of December 31, 2018.

Assets under construction

As of June 30, 2019 and December 31, 2018, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 732 million and RUB 547 million, respectively.

Capitalised borrowing costs

The amount of borrowing costs capitalised was RUB 147 million and RUB 293 million for the six months ended June 30, 2019 and 2018, respectively. The rate used to determine the amount of borrowing costs eligible for capitalisation was 8.9% (for the six months ended June 30, 2018: 8.3%), which is the average rate of the eligible borrowings.

Commitments

As of June 30, 2019 and December 31, 2018, the Group's contractual commitments to acquire property, plant and equipment amounted to RUB 11,258 million and RUB 11,801 million, respectively.

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8. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense for the six months ended June 30, 2019 and 2018 are:

Income tax	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Current income tax		
Current income tax charge.....	(2,060)	(1,639)
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position.....	(1,780)	(1,504)
Deferred tax		
Relating to origination and reversal of temporary differences.....	1,672	678
Income tax expense reported in the interim condensed consolidated statement of profit (loss) and other comprehensive income	(2,168)	(2,465)

Deferred tax benefit relating to origination and reversal of temporary differences is mainly attributed to the different timing of foreign exchange gains/losses recognition on certain intragroup loans. Probable income tax risks of RUB 8,082 million and RUB 6,314 million as of June 30, 2019 and December 31, 2018, respectively, have been recognised in the Group's interim condensed consolidated financial statements. Possible income tax risks of RUB 1,718 million and RUB 2,745 million as of June 30, 2019 and December 31, 2018, respectively, have not been recognised in the Group's interim condensed consolidated financial statements.

9. Provisions

Rehabilitation provision

The decrease in discount rate for the six months period ended June 30, 2019 had impact on increase in rehabilitation provision of RUB 691 million as of June 30, 2019.

Provisions for legal claims

The Group is subject to various other lawsuits, claims and proceedings related to matters incidental to the business. Accruals for probable cash outflows have been made based on an assessment of a combination of litigation and settlement strategies. It is possible that results of operations in any future period could be materially affected by changes in assumptions or by the actual effectiveness of such strategies.

Legal claim contingency

As of June 30, 2019, management assesses the outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 15,053 million as possible based on the management's analysis and discussions with the legal advisers. In 2019 the Group successfully sustained its position in the first and second court instances for the amount of RUB 11,923 million out of the total possible risk amount.

Taxation

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), the Group accrued RUB 683 million and RUB 583 million of claims in respect of taxes other than income tax that management believes are probable, as of June 30, 2019 and December 31, 2018, respectively. Possible tax liabilities on taxes other than income tax, which were identified by management as those that can be subject to different interpretations of the tax law and regulations are not accrued in the interim condensed consolidated financial statements. The amount of such liabilities was RUB 1,792 million and RUB 1,689 million as of June 30, 2019 and December 31, 2018, respectively.

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10. Issued capital and reserves

On June 28, 2019, Mechel declared dividends of RUB 1,516 million (RUB 18.21 per preferred share) to the third party holders of preferred shares for 2018.

On June 29, 2018, Mechel declared dividends of RUB 1,387 million (RUB 16.66 per preferred share) to the third party holders of preferred shares for 2017.

11. Finance income and finance costs

Finance income is comprised of the following:

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Effect of restructuring of loans and leases	343	7,527
Interest income on other financial assets	88	103
Income from the discounting of financial instruments.....	59	7
Remeasurement of fair value of financial instruments.....	–	226
Total.....	490	7,863

Finance costs are comprised of the following:

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Interest on loans and borrowings.....	(16,526)	(17,910)
Finance charges payable under leases	(644)	(574)
Fines and penalties on overdue loans and borrowing payments and overdue interest payments.....	(352)	(723)
Fines and penalties on overdue leases	(9)	(11)
Total finance costs related to loans, borrowings and leases	(17,531)	(19,218)
Unwinding of discounting of financial instruments.....	(2,116)	(1,910)
Unwinding of discount on rehabilitation provision	(172)	(153)
Interest expenses under pension liabilities.....	(170)	(138)
Remeasurement of fair value of financial instruments.....	–	(26)
Total.....	(19,989)	(21,445)

12. Segment information

The following tables present segment information for the Group's operating segments for the six months ended June 30, 2019 and 2018, respectively:

Six months ended June 30, 2019 (unaudited)	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenues from contracts with external customers.....	49,803	88,812	14,711	–	153,326
Inter-segment revenues.....	19,731	3,036	8,065	(30,832)	–
Gross profit.....	37,851	15,473	6,124	(144)	59,304
Depreciation and amortisation.....	(4,011)	(2,932)	(240)	–	(7,183)
Finance income.....	422	68	–	–	490
Inter-segment finance income.....	189	194	16	(399)	–
Finance costs	(12,403)	(7,394)	(192)	–	(19,989)
Inter-segment finance costs	(101)	(159)	(139)	399	–
Income tax (expense) benefit.....	666	(213)	77	(2,698)	(2,168)
Profit (loss) for the period	10,017	7,287	(1,028)	(2,842)	13,434

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Six months ended June 30, 2018 (unaudited)	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenues from contracts with external customers.....	48,400	94,382	14,256	–	157,038
Inter-segment revenues.....	19,045	2,955	7,621	(29,621)	–
Gross profit.....	41,284	22,701	6,800	869	71,654
Depreciation and amortisation.....	(3,916)	(2,825)	(250)	–	(6,991)
Finance income.....	5,647	1,467	749	–	7,863
Inter-segment finance income.....	523	194	22	(739)	–
Finance costs.....	(15,750)	(5,539)	(156)	–	(21,445)
Inter-segment finance costs.....	(117)	(497)	(125)	739	–
Income tax expense.....	(1,163)	(392)	(87)	(823)	(2,465)
Profit for the period.....	1,977	2,498	759	46	5,280

The following table presents the Group's revenues from contracts with customers segregated between domestic and export sales. Domestic represents sales by a subsidiary in the country in which it is located. This category is further divided between subsidiaries located in Russia and other countries. Export represents cross-border sales by a subsidiary regardless of its location.

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Domestic		
Russia.....	85,275	90,937
Other.....	14,898	14,622
Total.....	100,173	105,559
Export.....	53,153	51,479
Total revenue.....	153,326	157,038

Allocation of total revenue from contracts with customers by country is based on the location of the customer. The Group's revenues from customers by geographic area were as follows:

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Russia.....	85,326	90,992
Asia.....	34,651	30,087
Europe.....	20,982	22,062
CIS.....	11,831	12,440
Middle East.....	382	1,239
USA.....	87	130
Other.....	67	88
Total.....	153,326	157,038

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The following table presents the breakdown of the Group's revenues from contracts with customers by major products:

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Mining segment		
Coal and middlings.....	39,317	41,274
Coke and chemical products.....	8,726	6,307
Iron ore concentrate.....	908	139
Other.....	852	680
Total.....	49,803	48,400
Steel segment		
Long steel products.....	49,468	52,866
Hardware.....	13,955	14,847
Flat steel products.....	11,566	12,258
Forgings and stampings.....	7,705	7,680
Ferrosilicon.....	1,787	1,822
Steel pipes.....	1,699	1,593
Semi-finished steel products.....	47	33
Other.....	2,585	3,283
Total.....	88,812	94,382
Power segment		
Electricity.....	13,696	13,294
Other.....	1,015	962
Total.....	14,711	14,256
Total revenue.....	153,326	157,038

13. Events after the reporting period

The Group evaluated subsequent events from June 30, 2019 through the date the interim condensed consolidated financial statements were issued and concluded that no subsequent events have occurred that would require recognition or disclosure in the interim condensed consolidated financial statements.

Chief Executive Officer of Mechel PAO



Oleg V. Korzhov

August 15, 2019

