

AUDITOR'S OPINION

for the Shareholders of Mechel Public Joint Stock Company

on accounting and financial statements of Mechel PAO

For the period from January 1st till December 31rd 2017

AUDITOR'S OPINION

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We have audited the enclosed accounting and financial statements of Mechel Public Joint Stock Company (OGRN 1037703012896, Russian Federation, Moscow) that consist of the Balance Sheet as of December 31st 2017, Profit and Loss Statement, annexes both to the Balance Sheet and to the Profit and Loss Statement, including Statement of Changes in Equity and Cash-flow Statement for 2017, and notes to the Balance Sheet and to the Profit and Loss Statement.

We believe that the enclosed annual accounting and financial statements reflect reliably in all material respects the financial state of Mechel, Public Joint Stock Company, as of December 31st 2017, as well as its financial results and cash flow in 2017 in accordance with the rules for generating accounting statements prescribed by laws of the Russian Federation.

Basis for audit opinion

We've carried out an audit in compliance with the International Standards of Audit (ISA). Our responsibility as per ISA is described in section "Responsibility of the Auditor for the Audit of Annual Accounting and Financial Statements" hereof. We are independent towards the audited entity, which is in compliance with the Independence Rules for Auditors and Auditing Companies and Code of Auditor's Professional Ethics that are in compliance with the Code of Ethics of Professional Accountants developed by Accounting Professional and Ethical Standards Board, and we have fulfilled other obligations in accordance with the above mentioned requirements of professional ethics. We believe that the audit evidence obtained by us during the audit is sufficient and appropriate to serve as a reasonable basis for expressing our opinion.

Key Aspects of the Audit

The key aspects of the audit are the aspects that we believe based on our professional judgement to be the most significant for the audit of the annual accounting and financial statements for the current period. These aspects were analyzed in the context of the audit of annual accounting and financial statements in general and were used to form our opinion in respect of such statements, and we do not express any separate opinion in respect of such aspects.

The following aspects were defined by us as the key aspects of audit to be included into our opinion.

1. ***Events or conditions that may cast significant doubt about the Audited entity's ability to continue as a going concern*** – lines 1200, 1500 and 1700 of the Balance Sheet, notes 8 (table part), 11.4, 13.2 (text part) to the Balance Sheet and to the Profit and Loss Statement

As of December 31st 2017 the circulating assets are 2,166,512 thousand rubles and the short-term accounts payable is 24,740,102 thousand rubles, i.e. 22,573,590 thousand rubles higher. Collaterals for obligations issued by Audited entity exceed the Balance Sheet currency by 307,347,033 thousand rubles as of December 31st 2017. The loan agreement previously signed by Audited entity as well as the loan agreements previously signed by Mechel Group companies contain restrictive covenants (financial covenants) in case of violation of which the banks are entitled for demanding accelerated repayment of the loans. Financial covenants are to be calculated based on the data reflected in IFRS Financial Statements of the Group companies audited by an independent auditor.

At that the management of the Audited entity believes that there are no significant doubts about the Audited entity's ability to continue as a going concern and that there is no uncertainty about the fact that the free cash flow will be sufficient to repay the indebtedness or about the feasibility of refinancing and restructuring of current liabilities.

Due to the presence of the above mentioned significant conditions we analyzed the way they may influence the Audited entity's ability to continue as a going concern and assessed the influence of other factors that may prevent their possible consequences. Our auditing procedures included filing a request to the management for their assessment of the Audit entity's ability to continue as a going concern; receiving a written statement on the results of such assessment and on the fact that the planned activities are aimed at ensuring the Audited entity's ability to continue as a going concern during at least 12 months after the accounting date and that such planned activities are practically feasible; considering such assessment for the defined period and analyzing the plans outlined by management; receiving the evidence of the fact that the situation is likely to improve due to the implementation of the above mentioned plans; analysis of the provided calculations, forecasts and assumptions. Based on the analysis performed and on our experience we performed our own assessment of the practical feasibility of the fulfillment of the plans outlined by management under the existing circumstances and of potential results of such plans and in view of the existing additional factors, including those listed in paragraph 2 below, and of the information that became available after the date of the management's assessment, including the subsequent events and the timelines for the repayment of the liabilities secured for by Audited entity.

2. ***Evaluation of deferred tax assets – note 11 (table part), notes 16 (text part) to the Balance Sheet and to Profit and Loss Statement***

Significant values of deferred tax assets are reflected in the annual accounting and financial statements of the Audited entity. The question of the probability of their repayment as a result of getting taxable profit in subsequent accounting periods is an important question from the view point of deciding upon if it is justifiable to reflect deferred tax assets in the Balance Sheet or if it is necessary to write them off as a result of reclassification of a temporary difference into a constant one.

Assessment of the recoverability of the deferred tax assets (of their ability to generate financial benefits in future) was performed by Audited entity. This assessment implies using multiple assessments and judgements due to the complexity of such assessment based on forecasted data. The forecasted model of the future cash flows of the consolidated Mechel Group provided to the auditor is based on the forecasts of the dynamics of the world prices for coking coal, steel and other types of products of Mechel Group companies till 2028 and includes the information making it possible to arrive at reasonable judgements in respect of the recoverability of the deferred tax assets.

Our auditing procedures related to the evaluation of the deferred tax assets included the following: checking of the arithmetical accuracy of the calculations used by model and of the completeness of the used data; analysis of the reasonableness of the assumptions used in calculations; assessment of disclosures and correctness of applying estimation judgements.

3. ***Classification of debentures by repayment timelines – note 5.3 (table part), notes 13 (text part) to the Balance Sheet and to Profit and Loss Statement.***

Material liabilities under credits and loans (hereinafter referred to as “debentures”) are reflected in the annual accounting and financial statements of the Audited entity. Meeting the terms and conditions of the credit and loan agreements, especially in view of the value of the debentures, is an important aspect to prevent credit risks. Besides, due control over the repayment timelines under such agreements is required not only to ensure compliance with them but also for the purposes of correct generation of the values of the Balance Sheet positions and of liquidity assessment.

Our auditing procedures included the following: checking of the correctness of debentures classification by repayment timelines defined by credit agreements; analysis of the actual compliance by Audited entity with all the debentures repayment terms, assessment of the state of the system of the internal control over this process.

Information that differs from that represented in the annual accounting and financial statements and in the auditor's opinion in respect of it

The management of the Company is responsible for other information. Other information includes the annual statement of the executive body but does not include annual accounting and financial statements and the auditor's opinion in respect of them prepared by us.

Our opinion of the annual accounting and financial statements does not cover other information and we do not provide any conclusion in any form when it comes to our confidence in respect of such information.

Since we are an auditor that performs audit of annual accounting and financial statements, our responsibilities include getting familiar with the above mentioned other information as soon as it is provided to us and figuring out if there are any material discrepancies between other information and accounting and financial statements or the information received by us within the audit procedure, and if other information contains any other possible material misstatements. If our analysis of the annual statements of the executive body reveals that the statements contain any material misstatements, we will have to inform the management and the Chairman of the Audit Committee of the Board of Directors of the Audited entity of the fact and demand for introducing adjustments to the annual statements.

Responsibility of the management and Chairman of the Audit committee of the Board of Directors of the Audited entity for the annual accounting and financial statements

The management of the Company is responsible for drawing up and reliability of the specified accounting and financial statements in accordance with the accounting standards of the Russian Federation as well as for the system of internal control necessary for drawing up the accounting and financial statements containing no material misstatements as a result of bad faith or mistakes.

When drawing up annual statements the management of the Company is responsible for assessment of the Audited entity to continue as a going concern, for the disclosure in respective cases of the information related to going concern and for drawing up statements based on the going concern assumption except for the cases when it is planned by management to wind up the Audited entity, to discontinue its operations or if the management does not have any other alternative but winding up or discontinuing of operations.

The Chairman of the Audit Committee of the Board of Directors is responsible for exercising control over the preparation of the annual accounting and financial statements of the Audited entity.

Responsibility of the Auditor for the audit of annual accounting and financial statements

Our purpose is to obtain reasonable confidence that annual accounting and financial statements do not contain material misstatements due to bad faith or mistakes and to prepare auditor's opinion. Reasonable confidence is a high degree of confidence but is not a guarantee that audit performed in accordance with ISA standards always reveals material misstatements if there are any. Misstatements may be a result of bad faith or mistakes and are considered material if it is possible to reasonably assume that they can either separately or all together influence the financial decisions made by users based on such accounting and financial statements.

Within audit performed under ISA we apply professional judgement and maintain professional scepticism during the whole process. Besides, we perform the following:

- Reveal and assess risks resulting in material misstatements in annual accounting and financial statements due to bad faith or mistakes; develop and perform audit procedures to respond such risks; obtain audit evidence that are sufficient and reliable enough to serve as a basis for auditor's opinion prepared by us. The risk of failure to reveal a material misstatement due to bad faith is higher than the risk of failure to reveal a material misstatement due to a mistake because bad faith may include conspiracy, forgery, wilful omission, misinterpretation of information or actions performed in avoidance of the internal control system;
- Get an understanding of the internal control system that is necessary for audit purposes in order to develop the audit procedure that would correspond to respective circumstances but not to express our opinion of the effectiveness of the internal control system of the Audited entity;
- Assess the appropriateness of the applicable accounting policy, reasonableness of the accounting assessments and of the respective disclosure of information prepared by management of the Audited entity;
- Conclude about the appropriateness of applying the going concern assumption by management of the Audited entity; based on the audit evidence obtained conclude about the absence or presence of a material uncertainty caused by events or circumstances that may result in material doubts about the Audited entity's ability to continue as a going concern. If we conclude that there is such material uncertainty, we must draw attention to this fact in our audit opinion prepared for respective disclosure of the information reflected in the accounting and financial statements or, make modifications to our opinion, if such disclosure is improper. Our conclusions are based on the audit evidence obtained before the date of our audit opinion. Nevertheless, subsequent events or conditions may lead to the fact that the Audited entity will not be able to continue as a going concern.
- Perform assessment of the presentation of annual accounting and financial statements in general, of their structure and contents, including information disclosure, make sure if annual

accounting and financial statements present transactions and events in such a way that they are presented properly.

We exchange information with the management and Chairman of the Audit Committee of the Board of Directors of the Audited entity and inform them inter alia of the planned scope of audit and the timelines for audit performance as well as of the material deficiencies of the internal control system revealed by audit.

We also assert to the Chairman of the Audit Committee of the Board of Directors of the Audited entity that we conducted our audit in accordance with all respective ethical norms in terms of independency and informed those persons about all relationships and other issues that may be reasonably considered as influencing auditor's independency and of respective precautionary measures, if necessary.

Out of all those aspects presented to the Chairman of the Audit Committee of the Board of Directors of the Audited entity we singled out the ones that are of most importance for the audit of the annual statements for the current period and therefore are the key aspects for the audit. These aspects are described in our auditor's opinion except for the cases if such public disclosure of information related to such aspects is forbidden by law or by regulatory statement or if, as some rare cases may be, we conclude that information related to some of these aspects shall not be disclosed in our opinion because the negative consequences resulting from such disclosure will exceed the public deliverables gained from it.

Manager of the Audit Engagement

based on results of which this Auditor's opinion is prepared

Salamatina V.V.

/Seal of Energy Consulting JSC/

<Signature>

Audit company:

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State Registration No. 1047717034640

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