

REPORT
on Compliance with the Principles and Recommendations of
the Corporate Governance Code

Statement of the Board of Directors of Mechel PAO on compliance with the Corporate Governance Principles prescribed by Code of Corporate Governance

Mechel PAO is using the model of corporate governance (hereinafter referred to as the “Model”) built up in compliance with the requirements of the legislation of the Russian Federation to the securities issuers whose shares are in the MOEX quotation list of A level. The Model of Corporate Governance of the Company ensures the effectiveness of the system of Corporate Governance, meeting the interests of the shareholders and compliance with the high standards of information disclosure. The Model also implies creation and support of the effective system of risks management and of the internal control, clear distinguishing between the domain of activities and powers of each governance body of the Company, employing a mechanism of evaluating the performance by them of their functions and duties.

In accordance with the Charter of Mechel PAO the following are the governing bodies of the Company:

- General Shareholders’ Meeting;
- Board of Directors;
- Management Board;
- Chief Executive Officer.

The current activities of the Company are governed by its sole executive body (Chief Executive Officer) and by its collegial executive body (Management Board). The Chief Executive Officer and the Management Board shall report to the General Shareholders’ Meeting of the Company. The Revision Commission shall be elected by General Shareholders’ Meeting to exercise control over the financial and administrative activities of the Company. If any material misstatements are revealed, the Revision Commission shall be entitled to call for the Extraordinary General Shareholders’ Meeting.

Description of the methodology that was used by the Company to evaluate the compliance with the Corporate Governance Principles prescribed by Code of Corporate Governance:

The evaluation of the compliance by the Company with the Corporate Governance Principles prescribed by Code of Corporate Governance was performed in accordance with the Recommendations of the Code of Corporate Governance (letter of the Central Bank of the Russian Federation No. ИИ-06-52/8 dd. February 17th 2016). The table enclosed contains the explanations of the main reasons, factors and (or) circumstances resulting in the Company’s incompliance or partial compliance with the Corporate Governance Principles prescribed by Code of Corporate Governance and the description of the mechanisms and tools of corporate governance that are used by Company instead of (to replace) the ones recommended by Code

of Corporate Governance as well as the planned (proposed) actions and measures to improve the model and practices of corporate governance and the timelines for the implementation of such measures and activities.

The Company is in compliance with the most of the Corporate Governance Principles recommended by Code of Corporate Governance, mainly the following:

- Equal and just attitude to all the shareholders is ensured when they are exercising their rights related to participation in corporate governance;
- The shareholders are provided with equal and just opportunities to participate in the profit of the Company by way of dividends;
- Equitable treatment of shareholders is ensured in respect of all types of shareholders (holders of shares of one category (class), including minority (minor) shareholders and foreign shareholders) and equal attitude of the Company towards them;
- Reliable ways of registering and monitoring rights for shares are ensured as well as a possibility of a free and unhindered alienation of shares by shareholders;
- The shareholders are provided with information and documents in accordance with the principles of equal and unhindered access;
- The Board of Directors is an effective professional governance body of the Company that is authorized to make independent objective judgements and to make decisions on behalf of the Company and its shareholders;
- the Board of Directors consists of a sufficient number of independent directors;
- BoD members are duly informed and act in good faith and reasonably in the interests of the Company, with due diligence and care;
- BoD Sub-committees have been established for the purpose of preliminary consideration of the most important questions related to the activities of the Company;
- a subdivision was established to perform functions of the Corporate secretary of the Company, including the following: effective current interactions with the shareholders, coordination of the activities of the Company related to the protection of shareholders' rights and interests, ensure the effective work of the Board of Directors;
- payment of remuneration to BoD members, executive bodies and other key management staff of the Company is performed in accordance with the remuneration policy followed by Company; the level of the remuneration paid by Company is sufficient to attract, motivate and retain the staff with necessary competencies and qualification;
- the incentive system for BoD members provides for the correlation between the financial interests of BoD directors and long-term financial interests of the shareholders.

The Company will continue further implementation of the recommendations prescribed by Code of Corporate Governance. Thus, for the next accounting year the Company is planning to improve the informational policy of the Company and to improve the work of the Board of Directors in such a way that the most important questions would be discussed at BoD meetings in praesentia. A possibility of performance of external evaluation of the work of the Board of Directors is under consideration.

No.	Corporate governance principles	Criteria for assessment of compliance with the corporate governance principles	Status of compliance with the corporate governance principle	Explanations of deviation from the criteria for assessment of compliance with the corporate governance principles
1.1	The Company shall ensure equal and fair treatment of all shareholders as regards their implementation of the right to participate in the company management.			
1.1.1	The Company creates the most favorable conditions for the shareholders to participate in the meeting, conditions for development of the sound stance on the agenda issues of the General Shareholders' Meeting, coordination of own actions, as well as the chance to voice own opinion on the issues under consideration.	1. The Company's internal document approved by the General Shareholders' Meeting regulating the procedures for the General Shareholders' Meeting is publicly available. 2. The Company provides accessible way of communication with the Company such as "hotline", e-mail or Internet forum allowing the shareholders to share their opinion and send questions with regard to the agenda while preparing for the general meeting. The above actions were taken by the Company shortly before each general meeting held in the reporting period.	Compliance	
1.1.2	The procedure of notifying of the general meeting and the materials to be submitted for the general meeting gives a chance for the shareholders to be duly prepared for participation in the meeting.	1. The notice of the General Shareholders' Meeting is available (published) on the Internet website no less than 30 days before the general meeting. 2. The place of the meeting and the documents necessary for accessing the premise are specified in the notice of the meeting. 3. The shareholders were provided with the access to the information about who proposed the agenda issues and who nominated the candidates to the Board of Directors and the Revision Commission of the Company.	Compliance	
1.1.3	When preparing for and holding the general meeting the shareholders had a chance to receive the information about the meeting and related materials freely and in a timely manner, ask questions to the executive bodies and members of the Board of Directors, network among themselves.	1. In the reporting period, the shareholders had a chance to ask questions to the members of the executive bodies and the members of the Board of Directors of the Company shortly before and during the General Shareholders' Meeting. 2. The Board of Directors' stance (including special opinions entered into in the minutes) on each agenda issue of the general meeting held in the reporting period was included into the materials to the General Shareholders' Meeting. 3. The Company provided the shareholders, who were entitled to the same, with access to the list of persons entitled to participate in the general meeting starting from the date when the Company received it, in all general meeting held in the reporting period.	Partial compliance	The Company provides its shareholders with an opportunity of asking their questions: on the eve of the shareholders' meeting, the questions can be sent to our corporate e-mail address mechel@mechel.com ; ir@mechel.com ; Chief Executive Officer and management of the Company answers all questions in detail during the shareholders' meeting no matter if such questions are included into the Agenda of the meeting or not. Nevertheless, not all BoD members may attend the meeting because no such mandatory duty is established by regulatory documents of the Company and due to the fact that not all BoD members live at the place of domicile of the Company where the meetings are held. The materials include the recommendations issued by Board of Directors for the general shareholders' meeting, e.g. recommendations related to profit distribution and dividends payment. Nevertheless, the BoD does not express its opinion by all Agenda points and acts within its competencies defined by Charter and internal regulatory documents.
1.1.4	The shareholder's right to request convocation	1. In the reporting period, within 60 days after the end of	Compliance	

	of the general meeting, nominate candidates to the governing bodies and submit proposals for inclusion into the agenda of the general meeting was not associated with the needless complexities.	the relevant calendar year the shareholders had a chance to submit proposals for inclusion into the agenda of the annual general meeting. 2. In the reporting period, the Company did not refuse to accept proposals for the agenda or nominations to the governing bodies because of misprints or other minor deficiencies in the shareholder's proposal.		
1.1.5	Each shareholder had a chance to freely exercise the voting right in the simplest and the most convenient way for him or her.	1. The internal document (internal policy) of the Company contains provisions stating that each participant of the general meeting can request a copy of a bulletin filled in by them and certified by the Tabulation Commission before the end of the relevant meeting.	Compliance	
1.1.6	The procedure of the general meeting established by the Company provides equal opportunity for all those present at the meeting to voice their opinion and ask questions they are interested in.	1. There was sufficient time for reports on the agenda issues and time for their discussion at the General Shareholders' Meeting in the form of a meeting (joint presence of shareholders) in the reporting period. 2. Candidates to the governing and supervision bodies of the Company were available for answering the shareholders' questions at the meeting where their nominations were put to vote. 3. When making decisions related to preparation and holding of the General Shareholders' Meetings, the Board of Directors considered the issue on the use of the telecommunication means for providing the shareholders with the remote access to participate in the general meetings in the reporting period.	Partial compliance	All nominees to the governing and controlling bodies did not have an opportunity to take part in the shareholders' meeting because they do not live in the place of the Company's location where the meeting was held. In view of absence of such technical possibilities the Board of Directors did not consider a possibility of using telecommunication means to provide the shareholders with a remote access to general shareholders' meetings during the accounting period. But the Company provides the shareholders with a possibility of sending their questions on a remote basis to the corporate e-mail address of the Company mechel@mechel.com ; ir@mechel.com .
1.2	The shareholders are provided with an equal and fair opportunity to participate in the company revenue by receiving dividends.			
1.2.1	The Company developed and implemented a transparent and clear method of determining the dividends and their payment.	1. The Company developed and disclosed the dividend policy that is approved by the Board of Directors. 2. The relevant provisions of the dividend policy include the consolidated indicators of the financial statements while the Company's reporting indicators are used in the Company's dividend policy to determine the size of dividends.	Compliance	
1.2.2	The Company does not make any decisions on dividend payment when such a decision, without formally breaching the restrictions established by the laws, is economically unfeasible and can lead to false representation of the Company's activities.	1. The Company's dividend policy contains clear instructions on financial/economic circumstances when the Company should not pay dividends.	Non-compliance	The dividend policy followed by Company uses differential approach in respect of dividends payment. Decision making on dividends payment directly depends on the financial/economic conditions in a certain accounting period and the Charter of the Company contains information related to the amount of annual fixed dividend to be paid per one privileged share of the Company that is to be announced and paid provided that the net profit of the Company is sufficient to pay the dividend.
1.2.3	The Company does not allow for deterioration of dividend rights of the existing shareholders.	1. In the reporting period, the Company did not take any actions leading to deterioration of the dividend rights of the existing shareholders.	Compliance	

1.2.4	The Company is committed to prevent the shareholders from using other ways of receiving profit (income) at the Company's expense in addition to dividends and disposal value.	1. In order to prevent the shareholders from using other ways of receiving profit (income) at the Company's expense in addition to dividends and disposal value, the methods of control that ensure timely identification and procedure of approving transactions with entities affiliated (associated) with the existing shareholders (entities having the right to dispose of the votes attached to the voting shares) are established in the Company's internal documents in cases when the law does not formally recognize such transactions as related-party transactions.	Compliance	
1.3	The system and practice of corporate governance ensure equal conditions for all shareholders owning shares of similar category (type), including minority (minor) shareholders and foreign shareholders and their equal treatment by the company.			
1.3.1	The Company created conditions for fair treatment of each shareholder by the governing and supervision bodies of the Company, including conditions ensuring prohibition of abuse on the part of the major shareholders with regard to the minority shareholders.	1. Within the reporting period the procedures for the management of potential conflicts of interests for the existing shareholders are efficient and the Board of Directors gave due consideration to the conflicts among the shareholders, if any.	Compliance	
1.3.2	The Company does not take any actions that cause or may cause artificial redistribution of the corporate governance.	1. There are no any quasi treasury shares or they were not included in the voting during the reporting period.	Compliance	
1.4	The shareholders are provided with reliable and efficient ways of share rights accounting, as well as the opportunity of free and unhindered alienation of shares owned by them.			
1.4.1	The shareholders are provided with reliable and efficient ways of share rights accounting, as well as the opportunity of free and unhindered alienation of shares owned by them.	1. Quality and reliability of the activities of the company's registrar for maintaining the register of the security holders meet the needs of the Company and its shareholders.	Compliance	
2.1	The Board of Directors carries out the company strategic management, determines the main principles and approaches to organization of the risk management and internal control system in the company, supervises the activities of the Company's executive bodies, as well as implements other key functions.			
2.1.1	The Board of Directors is responsible for making decisions related to appointment and termination of the executive bodies, including due to improper fulfillment of their obligations. The Board of Directors also supervises and ensures that the Company's executive bodies act in accordance with the approved development strategy and the main areas of the Company's activities.	1. The Board of Directors has the powers enshrined in the Articles of Association to appoint, terminate and determine the contractual conditions with regard to the members of the executive bodies. 2. The Board of Directors considered the report (reports) of the sole executive body and the members of the collective executive body on the Company's strategy fulfillment.	Compliance	
2.1.2	The Board of Directors establishes the main guidelines of the Company's activities for the long-term, assesses and approves the key	1. Within the reporting period, at the meetings of the Board of Directors the issues related to the progress of the strategy implementation and update, approval of the financial and	Compliance	

	performance indicators and the main business objectives of the Company, assesses and approves the strategy and business plans on the Company's main types of activities.	economic plan (budget) of the Company, as well as consideration of criteria and indicators (including intermediate) of implementation of the strategy and business plans of the Company.		
2.1.3	The Board of Directors determines principles and approaches towards organization of the risk management and internal control system in the Company.	1. The Board of Directors determined principles and approaches towards organization of the risk management and internal control system in the Company. 2. The Board of Directors carried out the assessment of the risk management and internal control system within the reporting period.	Partial compliance	The principles and approaches towards organization of the risk management and internal control system in the Company are defined by Audit Committee and afterwards the latter performed the assessment of the risk management and internal control system.
2.1.4	The Board of Directors determines the Company's policy on remuneration and (or) reimbursement of expenses (compensations) to the members of the Board of Directors, the executive bodies and other key managers of the Company.	1. The Company developed and implemented the policy (policies) on remuneration and reimbursement of expenses (compensations) to the members of Board of Directors, the executive bodies of the Company and other key managers of the Company. 2. Within the reporting period, the issues related to the above policy (policies) were considered at the meetings of the Board of Directors.	Partial compliance	The policy of payment of remuneration and reimbursement of costs (compensations) to BoD members is defined by Regulation on Payment of Remuneration to Members of the Board of Directors of Mechel PAO and of Compensation for the Expenses Related to the Fulfillment by Members of the Board of Directors of their Functional Duties approved by General Shareholders' Meeting of Mechel PAO (MoM No. 1 dd. June 30 th 2017). The Principle of Corporat Governance defined in Clause 2.1.4. is in fact complied with by the Company. The policy of payment of remuneration to BoD members is defined by Nominations and Compensation Committee of the Board of Directors the function of which is to define the criteria for selecting nominees to BoD members, work out the remuneration policy to be followed by Company and hire other core management staff of the Company (clause 3.1.3. of the Regulation on the Nominations and Compensation Committee of the Board of Directors).
2.1.5	The Board of Directors has a key role in prevention, identification and settlement of the internal conflicts among the Company's bodies, shareholders and employees.	1. The Board of Directors has a key role in prevention, identification and settlement of the internal conflicts. 2. The Company created the identification system for transactions related to the conflict of interests and the system of measures aimed at settlement of such conflicts.	Compliance	
2.1.6	The Board of Directors has a key role in ensuring the Company's transparency, timeliness and completeness of the Company's information disclosure, unhindered access for the shareholders to the Company's documents.	1. The Board of Directors approved the information policy regulation. 2. The Company determined the persons in charge of the information policy implementation.	Compliance	
2.1.7	The Board of Directors supervises the corporate governance practice in the Company and has a key role in the Company's significant corporate events.	1. Within the reporting period the Board of Directors considered the issue on the corporate governance practice in the Company.	Compliance	
2.2	The Board of Directors reports to the Company's shareholders.			
2.2.1	The information about the work of the Board of Directors is disclosed and provided to the shareholders.	1. The Company's annual report for the reporting period includes the information about the attendance of the Board of Directors and the committees by certain directors. 2. The annual report contains the information about the	Partial compliance	The annual statements of the Company for the accounting period contains the information on the number of BoD members and of the BoD members who attended the meetings but does not contain the information on other directors who attended the meetings. No personal attendance accounting is in place in the Company whereas in

		main results of assessment of the Board of Directors' work carried out in the reporting period.		fact almost all the questions related to competencies are approved unanimously by all directors.
2.2.2	The Chairman of the Board of Directors is available for interaction with the Company's shareholders.	1. There is a transparent procedure in the Company that provides the shareholders with the opportunity to address questions to the Chairman of the Board of Directors, as well as express own stance on them.	Compliance	
2.3	The Board of Directors is an efficient and professional management body of the Company capable of making objective independent judgments and adopting resolutions corresponding to the interests of the Company and its shareholders.			
2.3.1	Only those who have unblemished business and personal reputation, knowledge, skills and experience necessary for making decisions pertaining to the competence of the Board of Directors and required for efficient performance of its functions are elected as the members of the Board of Directors.	1. The procedure for assessment of the Board of Directors' work effectiveness adopted in the Company includes the assessment of professional qualification of the members of the Board of Directors. 2. In the reporting period the Board of Directors (or its Nomination Committee) carried out an assessment of the candidates to the Board of Directors in terms of their required experience, knowledge, business reputation, absence of conflict of interests etc.	Compliance	
2.3.2	The Members of the Company Board of Directors are elected by transparent procedure allowing the shareholders to obtain information about the candidates sufficient for providing insight into their personal and professional qualities.	1. In all cases of the General Shareholders' Meeting in the reporting period with its agenda on the issues of election of the Board of Directors, the Company provided to the shareholders the biographical information about the candidates to the members of the Board of Directors, the results of assessment of such candidates conducted by the Board of Directors (or its Nomination Committee), as well as the information about the candidate compliance with the independency criteria in accordance with the recommendations 102 - 107 of the Code and written consent of the candidates to be elected to the Board of Directors.	Compliance	
2.3.3	The composition of the Board of Directors is balanced, including in terms of qualification of its members, their experience, knowledge and business qualities enjoying the trust of the shareholders.	1. Within the procedure for assessment of the Board of Directors' work carried out in the reporting period, the Board of Directors analyzed own needs in the professional qualification, experience and business skills.	Compliance	
2.3.4	The quantitative composition of the Company Board of Directors allows organizing the activities of the Board of Directors in the most efficient way, including the possibility to form the committees of the Board of Directors, as well as gives the chance to the substantial minority shareholders of the Company to elect the candidate to the Board of Directors they vote for.	1. Within the procedure for assessment of the Board of Directors carried out in the reporting period, the Board of Directors considered the issue of whether the quantitative composition of the Board of Directors complies with the Company's needs and shareholders' interests.	Compliance	

2.4	The Board of Directors shall include an adequate number of independent directors.			
2.4.1	The independent director shall be recognized a person who has adequate and sufficient expertise, experience and independency for building his/her own stance, capable of providing objective and fair judgements, independent of the influence of the executive bodies of the Company, certain groups of shareholders or any other stakeholders. In addition, it should be noted that in normal conditions the candidate (elected member of the Board of Directors) who is related to the Company, its substantial shareholders, substantial business partner or competitor of the Company or who is related to the state cannot be considered independent.	1. Within the reporting period all the independent members of the Board of Directors met all the independency criteria specified in recommendations 102 - 107 of the Code and were recognized independent by the decision of the Board of Directors.	Compliance	
2.4.2	Compliance of the candidates to the Board of Directors with the independency criteria is assessed, as well as the regular analysis of compliance of the independent members of the Board of Directors with the independency criteria is carried out. When carrying out such an assessment the content shall prevail over the form.	1. In the reporting period the Board of Directors (or the Nomination Committee of the Board of Directors) formed an opinion on the independency of each candidate to the Board of Directors and provided the following opinion to the shareholders. 2. Over the reporting period the Board of Directors (or the Nomination Committee of the Board of Directors) considered at least once the independency of the existing members of the Board of Directors who are indicated by the Company as independent directors in the annual report. 3. The Company developed the procedures determining the necessary actions of the members of the Board of Directors should they be no longer independent, including the obligations on timely notice of the same to the Board of Directors.	Compliance	
2.4.3	Independent directors constitute at least one third of the elected Board of Directors members.	1. Independent directors constitute at least one third of the Board of Directors members.	Compliance	
2.4.4	Independent directors have a key role in preventing the internal conflicts in the Company and commission by the Company of major corporate actions.	1. Independent directors (who do not have conflicts of interest) shall preliminary assess the major corporate actions related to possible conflict of interests and the results of such an assessment shall be delivered to the Board of Directors.	Compliance	
2.5	The Chairman of the Board of Directors facilitate the most efficient implementation of the functions imposed on the Board of Directors.			
2.5.1	The Chairman of the Board of Directors is an independent director or a senior independent director is determined among selected independent directors, coordinating the	1. The Chairman of the Board of Directors is the independent director or the senior independent director is appointed among the independent directors <3>. 2. Roles, rights and obligations of the Chairman of the	Partial compliance	The role, rights and duties of the Chairman of the Board of Directors are defined by internal by-law of the Company - Regulation on the Board of Directors of Mechel PAO (approved by resolution of the extraordinary General Shareholders' Meeting on March 4 th 2016, minutes No.2 dated March 4 th 2016). But the Chairman of the Board

	activities of independent directors and cooperating with the Chairman of the Board of Directors.	Board of Directors (and if applicable, the senior independent director) are duly determined in the internal documents of the Company.		of Director is not an independent director.
2.5.2	The Chairman of the Board of Directors ensures the positive atmosphere during the meeting, free discussion of issues included into the agenda of the meeting, control over execution of the decisions made by the Board of Directors.	1. The effectiveness of the work of the Chairman of the Board of Directors was assessed within the procedure for assessment of the effectiveness of the Board of Directors in the reporting period.	Compliance	
2.5.3	The Chairman of the Board of Directors takes necessary measures for timely submission of the information necessary for decision making on the agenda issues to the members of the Board of Directors.	1. The obligation of the Chairman of the Board of Directors to take measures to ensure timely submission of the materials to the members of the Board of Directors on the agenda issues of the meeting of the Board of Directors is enshrined in the Company's internal documents.	Compliance	
2.6	The members of the Board of Directors act in good faith and in a reasonable manner in the interests of the Company and its shareholders based on adequate information awareness with due diligence and care.			
2.6.1	The Members of the Board of Directors make decisions considering all the available information in the absence of conflict of interests based on equal treatment of the Company's shareholders subject to the standard entrepreneurial risk.	1. The Company's internal documents establish that a member of the Board of Directors shall notify the Board of Directors should he/she have conflict of interests with regard to any agenda issue of the meeting of the Board of Directors or the committee of the Board of Directors before the discussion of the relevant agenda issue starts. 2. The Company's internal documents provide that a member of the Board of Directors shall refrain from voting on any issue should he/she have conflict of interests with regard to the same. 3. The Company established the procedure that allows the Board of Directors receive professional advisory services on the issues pertaining to his/her competence at the Company's expense.	Compliance	
2.6.2	The rights and obligations of the Board of Directors are clearly stated and enshrined in the Company's internal documents.	1. The Company adopted and published the internal document that clearly determines the rights and obligations of the member of the Board of Directors.	Compliance	
2.6.3	The members of the Board of Directors have enough time to discharge their functions.	1. Individual attendance of the meeting of the Board of Directors and the committees, as well as the time spent on preparation for participation in the meetings, was considered within the procedure for assessment of the Board of Directors in the reporting period. 2. In accordance with the Company's internal documents, the members of the Board of Directors shall notify the Board of Directors of their intention to become a member of the governing bodies of other companies (in addition to controlled and affiliated entities of the Company), as well as of the fact of such an appointment.	Compliance	

2.6.4	All the members of the Board of Directors have equal opportunity to access the Company's documents and information. Newly elected members of the Board of Directors are provided with sufficient information about the Company and the work of the Board of Directors in the shortest possible timeframe.	1. In accordance with the Company's internal documents the members of the Board of Directors are entitled to receive access to the documents and make requests concerning the Company and controlled entities, and the executive bodies shall provide the relevant information and documents. 2. The Company has formalized program of awareness-raising sessions for newly elected members of the Board of Directors.	Compliance	
2.7	The meetings of the Board of Directors, preparation for these meetings and participation of the Board of Directors members in the same ensure efficient functioning of the Board of Directors.			
2.7.1	The meetings of the Board of Directors are held as required subject to the scope of activities and the tasks that the Company faces from time to time.	1. The Board of Directors held at least six meetings in the reporting period.	Compliance	
2.7.2	The Company's internal documents enshrine the procedure for preparation and holding the meeting of the Board of Directors enabling the members of the Board of Directors to be duly prepared for its holding.	1. The Company has approved the internal document determining the procedure for preparation and holding of the meetings of the Board of Directors stating among other things that a notice of holding of the meeting shall be sent, as a rule, within 5 days before the date of holding of the meeting.	Partial compliance	The order and procedure for the preparation and holding of the meetings of the Board of Directors is defined by internal by-law of the Company - Regulation on the Board of Directors of Mechel PAO (approved by resolution of the extraordinary General Shareholders' Meeting on March 4 th 2016, minutes No.2 dated March 4 th 2016), which makes it possible for BoD members to prepare for and arrange such meeting in a due manner. The principle is partially complied with because the Regulation on the Board of Directors of Mechel PAO does not contain any instructions stating that the notification on a BoD meeting shall be made at least 5 days prior to such meeting.
2.7.3	The form of the meeting of the Board of Directors is determined subject to the importance of the agenda issues. The most important issues are solved at the meetings held in praesentia.	1. The Articles of Association or the internal documents of the Company provides that the most important issues (according to the list set forth in recommendation 168 of the Code) shall be considered at the meetings in praesentia.	Partial compliance	The form of a BoD meeting is to be defined by Chairman of the Board of Directors depending on the significance of the Agenda points. The most important questions are to be discussed at the meetings in form of personal presence (the list of the most important questions that shall be discussed only at the meetings held in praesentia is defined in article 27 of the Regulation on the Board of Directors). But the list of the most important questions defined in the Code of Corporate Governance is longer than that defined by local Regulation of the Company.
2.7.4	The decisions on the most important issues of the Company's activity are made at the meeting of the Board of Directors by a qualified majority or by a majority vote of all elected members of the Board of Directors.	1. The Company's Articles of Association provide that the decision on the most important issues set forth in recommendation 170 of the Code shall be made at the meeting of the Board of Directors by a qualified majority of at least three-fourths of votes, or by majority votes of all elected members of the Board of Directors.	Compliance	
2.8	The Board of Directors creates for preliminary consideration of the most important issues associated with the Company's activities.			
2.8.1	The Audit Committee composed of the independent directors has been created for preliminary consideration of the issues related to control over the financial and economic activities of the Company.	1. The Board of Directors has formed the Audit Committee composed of the independent directors only. 2. The Company's internal document determine the tasks of the Audit Committee, including among other things the tasks specified in recommendation 172 of the Code. 3. At least one member of the Audit Committee, who is an	Compliance	

		independent director, has experience and knowledge in preparation, analysis, assessment and audit of the accounting (financial) statements. 4. The meetings of the Audit Committee were held at least once during the quarter in the reporting period.		
2.8.2	The Remuneration Committee composed of the independent director and chaired by the independent director, who is not the Chairman of the Board of Directors, has been created for preliminary consideration of the issues related to formation of efficient and transparent remuneration practice.	1. The Board of Directors has created the Remuneration Committee that is composed only of the independent directors. 2. The independent director, who is not the Chairman of the Board of Directors, is the Chairman of the Remuneration Committee. 3. The Company's internal document determine the tasks of the Remuneration Committee, including among other things the tasks specified in recommendation 180 of the Code.	Compliance	
2.8.3	The Nomination Committee (appointments, staff) has been created, where most of the members are the independent directors, for preliminary consideration of the issues related to staff planning (succession planning), professional composition and effectiveness of work of the Board of Directors.	1. The Board of Directors has created the Nomination Committee (or its tasks specified in recommendation 186 of the Code are implemented within other committee <4>) where most of the members are the independent directors. 2. The Company's internal documents determine the tasks of the Nomination Committee (or the relevant committee with combined functions), including among other things the tasks specified in recommendation 186 of the Code.	Compliance	
2.8.4	Subject to the scope of activity and the level of risk, the Company Board of Directors has ascertained that the composition of its committees meets the objectives of the Company's activity in full. Additional committees have been either formed or have not been recognized necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).	1. In the reporting periods, the Company Board of Directors considered the issue on compliance of the composition of its committees with the tasks of the Board of Directors and the objectives of the Company's activity. Additional committees have been either formed or have not been recognized necessary.	Compliance	
2.8.5	The composition of the committees is determined in such a way as to allow conducting comprehensive discussion of the issues under consideration subject to various opinions.	1. The committees of the Board of Directors are chaired by the independent directors. 2. The Company's internal document (policies) provide for the provisions stating that the persons, who are the members of the Audit Committee, the Nomination Committee and the Remuneration Committee, can attend the meeting only at the invitation of the Chairman of the relevant committee.	Compliance	
2.8.6	The Chairpersons of the committees inform the Board of Directors and its Chairman about the work of their committees on a regular	1. Within the reporting period, the Chairpersons of the committees reported on the work of the committees to the Board of Directors on a regular basis.	Compliance	

	basis.			
2.9	The Board of Directors ensures that the quality of work performed by the Board of Directors, its committees and members of the Board of Directors is assessed.			
2.9.1	Assessment of the quality of work performed by the Board of Directors is focused on determination of the effectiveness of work of the Board of Directors, committees and members of the Board of Directors, compliance of their work with the Company's development needs, revitalization of the Board of Directors and identification of areas where their activity can be improved.	1. Self-assessment or external assessment of works of the Board of Directors carried out in the reporting period included assessment of work of the committees, certain members of the Board of Directors and the Board of Directors as a whole. 2. The results of self-assessment or external assessment of the Board of Directors carried out in the reporting period were considered at the meeting of the Board of Directors in praesentia.	Partial compliance	The Company performs the assessment of the work of the Board of Directors but it was not discussed at the BoD meeting in praesentia as a question within its competency, for the Board of Directors believes it makes sense to engage external consultants to perform the assessment of its work. The Company will consider the question of assessment by external consultants as soon as its financial state stabilizes.
2.9.2	The work of the Board of Directors, committees and the members of the Board of Directors is assessed on a regular basis at least once a year. An external company (advisor) is invited to conduct an independent assessment of the quality of work of the Board of Directors at least once in three years.	1. The Company invited an external company (advisor) at least once to conduct an independent assessment of the quality of work of the Board of Directors within three recent reporting periods.	Non-compliance	The explanations are provided in clause 2.9.2.
3.1	The Company Corporate Secretary performs efficient current interaction with the shareholders, coordination of the Company's actions on protection of the shareholders' rights and interests, support of the effective work of the Board of Directors.			
3.1.1	The Corporate Secretary has knowledge, experience and qualification sufficient for performance of obligations imposed on him/her, excellence reputation and enjoys trust of the shareholders.	1. The Company has adopted and disclosed the internal documents - Regulation on the Corporate Secretary. 2. The biographical information about the Corporate Secretary is available on the Company's website on the Internet and in the annual report with the same level of detail as for the members of the Board of Directors and the Company's executive management.	Compliance	
3.1.2	The Corporate Secretary has sufficient independence from the executive bodies of the Company and necessary powers and resources to fulfill the tasks set for him/her.	1. The Board of Directors approves appointment, termination and additional remuneration to the Corporate Secretary.	Compliance	
4.1	The level of remuneration payable by the company is sufficient for involvement, motivation and retention of the persons having the competence and qualification required by the company. Remuneration to the members of the Board of Directors, executive bodies and other key managers of the company shall be paid in accordance with the remuneration policy adopted in the Company.			
4.1.1	The level of remuneration provided by the Company to the members of the Board of Directors, executive bodies and other key managers create sufficient incentives for their effective work allowing the Company to hire and retain competent and qualified specialists. In addition, the Company avoids level of remuneration higher than necessary, as well as unreasonably big difference in the levels of	1. The Company has adopted the internal document (documents) - policy (policies) on remuneration to the members of the Board of Directors, executive bodies and other key managers, where the approaches to remuneration of the specified persons are clearly determined.	Compliance	

	remuneration of the specified persons and the Company's employees.			
4.1.2	The Company's remuneration policy is developed by the Remuneration Committee and approved by the Company's Board of Directors. The Board of Directors with support of the Remuneration Committee provides control over introduction and implementation of the remuneration policy in the Company, and revises and makes corrections to the same, if necessary.	1. In the reporting period, the Remuneration Committee considered the remuneration policy (policies) and practice of its (their) introduction and provided the relevant recommendations to the Board of Directors, if necessary.	Compliance	
4.1.3	The Company's remuneration policy includes transparent methods to determine the amount of remuneration to the members of the Board of Directors, executive bodies and other key managers of the Company, as well as regulates all the types of payments, benefits and bonuses provided to the specified persons.	1. The Company's remuneration policy (policies) includes (include) transparent methods to determine the amount of remuneration to the members of the Board of Directors, executive bodies and other key managers of the Company, as well as regulates (regulate) all the types of payments, benefits and bonuses provided to the specified persons.	Compliance	
4.1.4	The Company determined the policy on reimbursement of expenses (compensations) specifying the list of expenses to be reimbursed and the level of services that the members of the Board of Directors, executive bodies and other key managers of the Company can claim. Such a policy can be a component of the Company's remuneration policy.	1. The Company's remuneration policy (policies) or any other internal documents set forth the rules of reimbursement of expenses to the members of the Board of Directors, executive bodies and other key managers of the Company.	Compliance	
4.2	The system of remuneration to the members of the Board of Directors ensures convergence of the Directors' financial interests and long-term financial interests of shareholders.			
4.2.1	The Company pays a fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participation in individual meetings of the Board or committees of the Board of Directors. The Company does not apply any forms of a short-term incentives and additional financial incentives with regard to the members of the Board of Directors.	1. The fixed annual remuneration was the only monetary form of remuneration to the members of the Board of Directors for their work in the Board of Directors in the reporting period.	Compliance	
4.2.2	A long-term ownership of the Company's shares largely facilitates convergence of financial interests of the members of the Board of Directors with the long-term interests of the shareholders. In addition, the Company does not attach conditions to the	1. Should the Company's internal document (documents) - policy (policies) on remuneration provide for transfer of the Company's shares to the members of the Board of Directors, clear regulations for ownership of shares by the members of the Board of Directors shall be provided for and disclosed, aimed at promotion of the long-term	Compliance	

	rights to disposition of shares by achieving certain performance indicators, and the members of the Board of Directors do not participate in the option programs.	ownership of such shares.		
4.2.3	The Company does not provide for any additional payments or compensations in case of early termination of powers of the members of the Board of Directors due to change of control over the Company or other circumstances.	1. The Company does not provide for any additional payments or compensations in case of early termination of powers of the members of the Board of Directors due to change of control over the Company or other circumstances.	Compliance	
4.3	The system for remunerating the executive bodies and other key managers of the Company provides for dependence of remuneration on the result of the company's operations result and their personal contribution to this result achievement.			
4.3.1	Remuneration to the members of the executive bodies and other key managers of the Company is determined in such a way as to provide reasonable and justified proportion between the fixed part of remuneration and the variable part of remuneration depending on the results of the Company's performance and personal (individual) contribution of the employee to the final result.	1. Within the reporting period, the annual performance figures approved by the Board of Directors were used for determining the amount of variable remuneration to the members of the executive bodies and other key managers of the Company. 2. During the recent assessment of the system of remuneration to the members of the Board of Directors and other key managers of the Company, the Board of Directors (Remuneration Committee) ascertained that the Company applies the efficient proportion of the fixed part of remuneration and the variable part of remuneration. 3. The Company provides for the procedure ensuring that the bonus payments illegally received by the members of the executive bodies and other managers of the Company are returned to the Company.	Partial compliance	There in no procedure in the Company to recover the bonuses received unfairly by members of executive bodies and other key management staff of the Company. Such recovery shall be performed in accordance with active RF legislation.
4.3.2	The Company has implemented the long-term incentives program for the members of the executive bodies and other key managers of the Company with the use of the Company's shares (options or other derivative financial instruments should the Company's shares be the basis asset for the same).	1. The Company has implemented the long-term incentives program for the members of the executive bodies and other key managers of the Company with the use of the Company's shares (financial instruments based on the Company's shares). 2. The long-term incentives program for the members of the executive bodies and other key managers of the Company provides that the right to disposition of shares used in such a program, and other financial instruments, arises no earlier than three days after their granting. In addition, the right to their disposition is based on achievement of the Company's certain performance indicators.	Non-compliance	No long-term incentive program for executive bodies and other key management staff of the Company is introduced. The Company is using other incentive mechanisms and instruments, including monthly salary consisting of a fixed and variable parts as well as premium to be paid by yearly results for the achievement of target indicators. No long-term incentive program for executive bodies and other key management staff of the Company is introduced .
4.3.3	The amount of compensation (golden parachute) payable by the Company in case of early powers termination to the members of the executive bodies or key managers at the Company's initiative and with no fraudulent actions on their part does not exceed the	1. The amount of compensation (golden parachute) payable by the Company in case of early powers termination to the members of the executive bodies or key managers at the Company's initiative and with no fraudulent actions on their part did not exceed the double amount of the fixed part of the annual remuneration in the reporting period.	Compliance	

	double amount of the fixed part of the annual remuneration.			
5.1	The Company established an efficiently functioning system of risk management and internal control aimed at ensuring reasonable confidence in achieving the objectives set for the Company.			
5.1.1	The Board of Directors determined principles and approaches towards organization of the risk management and internal control system in the Company.	1. The functions of various management bodies and units of the Company in the risk management and internal control system are clearly determined in the internal documents/relevant policy of the Company approved by the Board of Directors.	Compliance	
5.1.2	The Company's executive bodies provide for creation and support of the efficient risk management and internal control system functioning in the Company.	1. The Company's executive bodies ensured distribution of functions and powers with respect to the risk management and internal control system among the managers (heads) of the units and departments accountable to them.	Compliance	
5.1.3	The risk management and internal control system in the Company ensures true, fair and clear presentation of the Company's current state and outlook, integrity and transparency of the Company's reporting, advisability and acceptability of the risks taken by the Company.	1. The Company has approved the anticorruption policy. 2. The Company has organized the means available for everyone of notifying the Board of Directors or the Audit Committee of the Board of Directors of the facts of breach of laws, internal procedures and the Company's Code of Ethics.	Partial compliance	There is no approved anticorruption policy in the Company. The Company has organized the means available for everyone of notifying the Board of Directors or the Audit Committee of the Board of Directors of the facts of breach of laws, internal procedures and the Company's Code of Ethics.
5.1.4	The Company Board of Directors takes the necessary measures to ensure that the risk management and internal control system applicable in the Company complies with the principles and approaches to its organization determined by the Board of Directors and operates effectively.	1. Within the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed the effectiveness of the risk management and internal control system of the Company. The information about the main results of such an assessment are included in the Company's annual report.	Compliance	
5.2	Internal audit performance is organized by the company for systematic independent assessment of the risks management and internal control system reliability and efficiency and the corporate governance practice.			
5.2.1	A separate organization unit has been created in the Company for conducting the internal audit or an independent external company has been engaged. Functional and administrative accountabilities of the internal audit department are delineated. The internal audit department reports to the Board of Directors in terms of functions.	1. For conducting the internal audit the Company has created a separate organization unit of the internal audit that is functionally accountable to the Board of Directors of the Audit Committee, or an independent external company is engaged with the same accountability principle.	Compliance	
5.2.2	The internal audit department assesses the effectiveness of the internal control system and the risk management system, as well as the corporate governance system. The Company applies the generally accepted internal audit standards.	1. Within the reporting period, as a part of the internal control the effectiveness of the internal control and risk management system was assessed. 2. The Company applies the generally accepted approaches to the internal control and risk management.	Compliance	

6.1	The Company and its activities are transparent for shareholders, investors and other stakeholders.			
6.1.1	The Company has developed and implemented the information policy ensuring efficient information interaction of the Company, shareholders, investors and other stakeholders.	<ol style="list-style-type: none"> The Company Board of Directors has approved the Company's information policy developed subject to the recommendations of the Code. The Board of Directors (or one of its committees) considered the issues related to observance by the Company of its information policy at least once in the reporting period. 	Partial compliance	<p>The principle of Corporate Governance defined in clause 6.1.1 is not complied with by Company because the Provisions on the Information Policy of the Company was approved by Board of Directors of the Company as long ago as in 2009 before the implementation of the Code of Corporate Governance.</p> <p>Currently the development of the new edition of the the Provisions on the Information Policy of the Company is in progress, the new edition will consider the recommendations of the Code of Corporate Governance.</p>
6.1.2	The Company discloses the information about the system and practice of corporate governance, including the detailed information about the observance of principles and recommendations of the Code.	<ol style="list-style-type: none"> The Company discloses the information about the corporate governance system in the Company and general corporate governance principles applied in the Company, including on the Company's website on the Internet. The Company discloses the information about the composition of the executive bodies and the Board of Directors, independent directors and their membership in the committees of the Board of Directors. (as defined by the Code). In case of the person controlling the Company, the Company publishes a memorandum of the controlling person with regard to his/her plans concerning the corporate governance in the Company. 	Compliance	
6.2	The Company timely discloses complete, updated and reliable Company information to allow reasonable decisions to be made by the Company shareholders and investors.			
6.2.1	The Company discloses the information in accordance with the principles of regularity, consistency and timeliness, as well as availability, completeness and comparability of the data disclosed.	<ol style="list-style-type: none"> The Company's information policy sets forth the approaches and criteria to determine the information that can have a substantial impact on the Company assessment and value of its securities and procedures ensuing timely disclosure of such information. Should the Company's securities be traded at the foreign organized markets, disclosure of the material information in the Russian Federation is carried out at such markets as well in a simultaneous and equivalent way in the reporting period. Should foreign shareholders own sufficient number of Company's shares, in the reporting period the information was disclosed both in Russian and in one of the most widely spoken foreign languages. 	Partial compliance	<p>This principle is complied with by Company by all criteria except for reflection in the Information Policy of the approaches and criteria for defining the information that may have a material influence upon evaluation of the Company and value of its securities.</p> <p>The main types of information that may produce a material influence upon the evaluation of the Company and value of its securities are defined by the Bank of Russia in Regulation on Information Disclosure by Issuers of Issuable Securities (No. 454-II dd. December 30th 2014). The Company has orders regulating the information disclosure procedure. A procedure is in place of exchanging material information subject to be disclosed as per active legislation with the most important organizations that are under control of the Company.</p>
6.2.2	The Company avoids formalist approach in information disclosure and discloses the material information about its activity even if disclosure of such information is not provided for by the laws.	<ol style="list-style-type: none"> Within reporting period the Company disclosed the annual and semiannual financial statements prepared in accordance with the IFRS standards. The Company's annual report for the reporting period included the annual financial statements prepared in accordance with the IFRS standards together with the auditor's report. The Company discloses full information about the Company's capital structure in accordance with Recommendation 290 of the Code in the annual report and on the Company's website on the Internet. 	Partial compliance	IFRS Financial statements were disclosed together with the Annual Statements but was not executed as a part of the Annual Statements.

6.2.3	The annual report as one of the most important instruments of the information interaction with the shareholders and other stakeholders contains the information allowing assessment of the Company's results of operations for the year.	1. The Company's annual report contains the information about the key aspects of the Company's operating activities and its financial results 2. The Company's annual report contains the information about the environmental and social aspects of the Company's activities.	Compliance	
6.3	The Company provides the information and documents at the shareholders' request in accordance with the equal and unhindered access principles.			
6.3.1	The Company provides information and documents at request of shareholders in accordance with equal and unhindered access principles.	1. The Company's information policy determines the unhindered procedure for the shareholders to access the information, including the information about the legal entities controlled by the Company at the shareholders' request.	Compliance	
6.3.2	Should the Company provide the information, the shareholders are provided with the reasonable balance between the interest of certain shareholders and the interests of the Company itself interested in keeping confidentiality of the important commercial information that can have a significant impact on its competitiveness.	1. Within the reporting period, the Company did not withhold the shareholders' requests for the information provision or such withholdings were reasonable. 2. In cases determined by the Company's information policy, the shareholders are notified of the confidential nature of the information and they undertake the obligation on keeping it confidential.	Compliance	
7.1	Actions that largely impact or may have impact on the structure of the share capital and financial standing of the Company and, therefore, on the shareholders' position (major corporate actions) are consummated on fair basis ensuring respect of rights and interests of shareholders, as well as other stakeholders.			
7.1.1	Major corporate actions are recognized to be company reorganization, acquisition of 30 and more percent of voting shares of the Company (merger), closing of major transactions by the Company, increase or reduction in the Company authorized capital, listing or delisting of the Company's shares, as well as other actions that can cause substantial change in the rights of the shareholders or infringement of their interests. The Company's Articles of Association determined the list (criteria) of transactions and other actions, constituting major corporate actions, whose review falls within the competence of the Company Board of Directors, including.	1. The Company's Articles of Association determined the list of transactions or other actions that are major corporate actions and criteria for their determination. Decision making with regard to major corporate actions is referred to the competence of the Board of Directors. In cases when these corporate actions are directly referred by the laws to the competence of the general shareholder's meeting, the Board of Directors gives the appropriate recommendations to the shareholder. 2. The Articles of Association attributes at least the following to the major corporate actions: company reorganization, acquisition of 30 and more percent of voting shares of the Company (merger), closing of major transactions by the Company, increase or reduction in the Company authorized capital, listing or delisting of the Company's shares.	Compliance	
7.1.2	The Board of Directors has a key role in decision making or recommendations development with regard to major corporate actions, the Board of Directors relies on the stance of the independent directors of the Company.	1. The Company has provided for the procedure under which the independent directors declare their stance on the major corporate actions before they are approved.	Compliance	

7.1.3	When taking major corporate actions that concern the rights and lawful interests of the shareholders, equal conditions are ensured for all the shareholders of the Company, as well as additional measures protecting the rights and lawful interests of the Company's shareholders should there be insufficient methods provided for by the laws and aimed at protection of the shareholders' rights. In addition, the Company is governed by both observance of the formal requirements of the laws and the corporate governance principles set forth in the Code .	1. The Company's Articles of Association establish lower minimum criteria subject to special aspects of its activity than those provided for by the laws for attributing transactions of the Company to the major corporate actions. 2. Within the reporting period, all major corporate actions passed through the approval procedure before they were consummated.	Compliance	
7.2	The Company ensures the procedure for consummating major corporate actions allowing shareholders to obtain complete information on such actions in a timely manner, allowing them to influence consummation of such actions and guaranteeing observance and adequate level of protection for their rights during consummation of such actions.			
7.2.1	The information about consummating the major corporate actions is disclosed with explanation of the causes, conditions and consequences of consummating such actions.	1. Within the reporting period, the Company disclosed the information about the major corporate actions of the Company in a timely manner and in detail, including the grounds and terms of consummating such actions.	Compliance	
7.2.2	Rules and procedures related to major corporate actions consummated by the Company are enshrined in the internal documents of the Company.	1. The Company's internal documents provide for the procedure of engaging an independent valuer to determine the value of property disposed of or acquired under large transaction or related-party transaction. 2. The Company's internal documents provide for the procedure of engaging an independent valuer to assess the value of acquisition and repurchase of the Company's shares. 3. The Company's internal documents provide for the enlarged list of the grounds on which the members of the Board of Directors and other persons provided for by the laws are recognized as interested in the Company's transactions.	Partial compliance	<p>The principle of Corporate Governance defined in clause 7.2.2 is partially complied with by Company.</p> <p>The engagement of an independent valuer to perform the evaluation of the cost of the Company assets either being alienated or being purchased under major transactions is provided for by Charter of the Company.</p> <p>The Charter does not provide for the engagement of an independent valuer to perform the evaluation of the cost of the Company assets either being alienated or being purchased under a related party transaction because the cost of services provided by such valuer are high.</p> <p>Charter of the Company provides for the evaluation of the cost of shares of the Company by independent valuer in case if such shares are being purchased or bought back.</p> <p>The Charter also defines an extended list of criteria for the independency of BoD members.</p>