

## **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 1<sup>st</sup> till December 31<sup>st</sup> 2020**

**Moscow  
2021**

## AUDITOR'S OPINION

### for the Shareholders of Mechel Public Joint Stock Company

#### Opinion

We have audited the enclosed annual accounting statements of Mechel Public Joint Stock Company (OGRN 1037703012896, Russian Federation, Moscow) that consist of the Balance Sheet as of December 31<sup>st</sup> 2020, Profit and Loss Statement for 2020, annexes both to the Balance Sheet and to the Profit and Loss Statement, including Statement of Changes in Equity for 2020 and Cash-flow Statement for 2020, and notes to the Balance Sheet and to the Profit and Loss Statement for 2020.

We believe that the enclosed annual accounting statements reflect reliably in all material respects the financial state of Mechel, Public Joint Stock Company, as of December 31<sup>st</sup> 2020, as well as its financial results and cash flow in 2020, 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 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 statements for the current period. These aspects were analyzed in the context of the audit of annual accounting 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. Evaluation and classification of financial investments by repayment timelines - note 3.1 (table part), notes 2.4, 6 (text part) to the Balance Sheet and to Profit and Loss Statement*

Significant long-term financial investments in the amount of 273,093,552 thous. rubles in form of contributions to the equities of subsidiaries and other companies and in form of loans provided are reflected in the annual accounting statements of the Audited entity. Financial investments do not have a current market value and are exposed to the risk of significant impairment of their value superseding the financial benefit the Audited entity expects to gain from such financial investments in the normal course of its operations.

The audit revealed that revenues in form of dividends were accrued in favor of the Audited entity in the amount of 7,601,100 thous. rubles. The issued loans generate financial benefit in form of interest on a regular basis. Our audit procedures related to the presentation of the information on financial investments in the book accounting statements also included the following: performance of substantive procedures in respect of testing financial investments for impairment criteria in order to analyze the value of necessary provision for impairment of financial investments; testing of the correctness of calculation of the recognized revenues in form of interest for the accounting period by loans issued; analysis of correctness of classifying loans issued in the accounting statements as long-term with the consideration of the terms and conditions of the concluded contracts. We also assessed the sufficiency of disclosures in respect of classification of financial investments by repayment timelines and by applicable accounting policy in the respective part.

*1. Classification of debentures by repayment timelines - note 5.3 (table part), notes 2.5, 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 restrictive conditions (covenants) related to the repayment of its liabilities under credits, assessment of the state of the system of the internal control over this process.

*2. Evaluation of deferred tax assets – note 11 (table part), note 15 (text part) to the Balance Sheet and to Profit and Loss Statement*

Significant values of deferred tax assets are reflected in the annual accounting 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.

We analyzed the assessment of the probability of getting taxable profit in subsequent accounting periods performed by the 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 also 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 by management of the Audited entity.

### **Information that differs from that represented in the annual accounting 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 statements and the auditor's opinion in respect of them prepared by us.

Our opinion of the annual accounting 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 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 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 statements**

The management of the Company is responsible for drawing up and reliability of the specified accounting statements in accordance with the accounting standards of the Russian Federation, as well as for the system of internal control the management thinks to be adequate and necessary for drawing up the accounting 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 statements of the Audited entity.

### **Responsibility of the Auditor for the audit of annual accounting statements**

Our purpose is to obtain reasonable confidence that annual accounting 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 statements.

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

- a) Reveal and assess risks resulting in material misstatements in annual accounting statements due to bad faith or mistakes; develop and perform audit procedures to respond such risks;

obtain the audit evidence 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, willful omission, misinterpretation of information or actions performed in avoidance of the internal control system;

- b) 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;
- c) 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;
- d) 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 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;
- e) Perform assessment of the presentation of annual accounting statements in general, of their structure and contents, including information disclosure, make sure, if annual accounting 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

Potrusova E.I.

**Audit company:**

Energy Consulting Joint Stock Company

State Registration No. 1047717034640.

Place of location: Obrucheva street 23/3, Office XXII/9b, Moscow, Russian Federation, 117630.

A member of Self-regulatory organization of auditors Non-Profit partnership “Auditor Association Sodruzhestvo”, principal number of registration entry (ORNZ) 11906106131.

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