



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

for the six months ended June 30, 2023

CONTENTS

REPORT ON REVIEW OF SUMMARY INTERIM FINANCIAL INFORMATION

**SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME**

SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Report on Review of the Summary Interim Financial Information

To the shareholders and the Board of Directors of PJSC Mechel

Introduction

We have reviewed the summary interim condensed consolidated financial statements of PJSC Mechel and its subsidiaries (the "Group"), which comprise the summary interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2023, the summary interim condensed consolidated statement of financial position as of 30 June 2023, the summary interim condensed consolidated statement of changes in equity and summary interim condensed consolidated statement of cash flows for the six months ended 30 June 2023, and notes (the "summary interim consolidated financial information" hereinafter).

The summary interim consolidated financial information is derived from the Group's interim consolidated financial information for the six months ended 30 June 2023, prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Management of the Group is responsible for the preparation of this summary interim consolidated financial information in accordance with the accounting principles described in Note 2, Basis of preparation of the summary interim condensed consolidated financial statements, thereto. Our responsibility is to express a conclusion on this summary interim consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

A review of summary interim consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying summary interim consolidated financial information is not prepared, in all material respects, in accordance with the accounting principles described in Note 2, Basis of preparation of the summary interim condensed consolidated financial statements, thereto.

Emphasis of matter – basis of accounting

We draw attention to Note 2, Basis of preparation of the summary interim condensed consolidated financial statements, to the summary interim consolidated financial information, which describes the principles applied in the preparation of this summary interim consolidated financial information. The summary interim consolidated financial information does not include all matters required to be presented and disclosed in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Our conclusion is not modified in respect of this matter.

Other matters – the interim consolidated financial information and our conclusion thereon

We expressed an unmodified conclusion on the Group's interim consolidated financial information for the six months ended 30 June 2023 prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, in our report on review dated 28 August 2023. This report also includes the Emphasis of matter paragraph, which draws attention to Note 4 to the interim consolidated financial information. This note indicates that, as of 30 June 2023, the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks. These events or conditions, along with other matters as set forth in Note 4 to the interim consolidated financial information, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. These matters are discussed in Note 4 to the summary interim consolidated financial information.



E.V. Khranova
Partner
TSATR – Audit Services Limited Liability Company

28 August 2023

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the entity

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

MECHEL PAO
SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND
OTHER COMPREHENSIVE INCOME
for the six months ended June 30, 2023

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

	Notes	Six months ended June 30, 2023 (unaudited)	Six months ended June 30, 2022 (unaudited)
Revenue from contracts with customers.....	6	194,686	249,154
Cost of sales.....		(121,207)	(138,823)
Gross profit	6	73,479	110,331
Selling and distribution expenses		(29,417)	(29,557)
Impairment of goodwill and other non-current assets, net.....	9	(4,067)	(519)
Allowance for expected credit losses.....		(700)	(501)
Taxes other than income taxes		(2,130)	(1,783)
Administrative and other operating expenses.....		(9,311)	(9,217)
Other operating income		1,138	1,146
Total selling, distribution and operating income and (expenses), net		(44,487)	(40,431)
Operating profit		28,992	69,900
Finance income	7	580	1,742
Finance costs	7	(12,642)	(16,697)
Foreign exchange (losses) gains, net.....		(24,315)	34,950
Share of profit (loss) of associates, net		35	3
Other income		13	10
Other expenses		(36)	(241)
Total other income and (expenses), net		(36,365)	19,767
(Loss) profit before tax		(7,373)	89,667
Income tax benefit (expense)	12	3,899	(17,003)
(Loss) profit		(3,474)	72,664
Attributable to:			
Equity shareholders of Mechel PAO		(3,478)	69,412
Non-controlling interests.....		4	3,252
Other comprehensive income			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods, net of tax:</i>		936	(3,648)
Exchange differences on translation of foreign operations		936	(3,648)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax:</i>		(14)	(447)
Net gain on equity instruments designated at fair value through other comprehensive income		7	-
Remeasurement of defined benefit plans		(21)	(447)
Other comprehensive income (loss), net of tax		922	(4,095)
Total comprehensive (loss) income, net of tax		(2,552)	68,569
Attributable to:			
Equity shareholders of Mechel PAO		(2,557)	65,332
Non-controlling interests.....		5	3,237
Earnings per share			
Weighted average number of common shares		404,776,126	404,776,126
(Loss) earnings per share (Russian rubles per share) attributable to common equity shareholders – basic and diluted.....		(8.59)	171.48

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

MECHEL PAO

SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of June 30, 2023

(All amounts are in millions of Russian rubles)

	Notes	June 30, 2023 (unaudited)	December 31, 2022
Assets			
Non-current assets			
Property, plant and equipment	8	87,359	79,246
Right-of-use assets	8	26,854	20,820
Mineral licenses		16,717	16,895
Goodwill and other intangible assets		7,145	10,601
Other non-current assets		4,634	4,825
Investments in associates		374	339
Non-current financial assets		362	402
Deferred tax assets	12	3,990	1,077
Total non-current assets		147,435	134,205
Current assets			
Inventories	13	65,707	60,271
Income tax receivables		311	117
Other current assets		10,200	10,852
Trade and other receivables		25,416	23,912
Other current financial assets		88	56
Cash and cash equivalents		21,115	23,700
Total current assets		122,837	118,908
Total assets		270,272	253,113
Equity and liabilities			
Equity			
Common shares		4,163	4,163
Preferred shares		840	840
Treasury shares		(907)	(907)
Additional paid-in capital		23,532	23,532
Accumulated other comprehensive income		3,314	2,393
Accumulated deficit		(133,244)	(129,766)
Equity attributable to equity shareholders of Mechel PAO		(102,302)	(99,745)
Non-controlling interests		17,492	17,489
Total equity		(84,810)	(82,256)
Non-current liabilities			
Loans and borrowings	10.1	86	85
Lease liabilities	10.2	12,691	10,291
Other non-current financial liabilities		613	38
Other non-current liabilities		56	63
Pension liabilities		3,284	2,947
Provisions	11	4,970	5,048
Deferred tax liabilities	12	6,071	8,286
Total non-current liabilities		27,771	26,758
Current liabilities			
Loans and borrowings	10.1	257,329	240,737
Lease liabilities	10.2	12,252	9,514
Trade and other payables		29,224	26,117
Other current financial liabilities		164	209
Income tax payable		3,720	8,652
Taxes and similar charges payable other than income tax		8,656	7,493
Advances received		11,499	11,552
Other current liabilities		75	89
Pension liabilities		483	547
Provisions	11	3,909	3,701
Total current liabilities		327,311	308,611
Total liabilities		355,082	335,369
Total equity and liabilities		270,272	253,113

Chief Executive Officer of Mechel PAO  Oleg V. Korzhov

August 28, 2023

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



MECHEL PAO
SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless shares numbers)

Attributable to equity shareholders of the parent												
Notes	Common shares		Preferred shares		Treasury shares		Additional paid-in capital	Accumulated comprehensive income (loss)	Accumulated deficit	Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
	Quantity	Amount	Quantity	Amount	Quantity	Amount						
As of January 1, 2023.....	416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,532	2,393	(129,766)	(99,745)	17,489	(82,256)
Loss	-	-	-	-	-	-	-	-	(3,478)	(3,478)	4	(3,474)
Other comprehensive income												
Remeasurement of equity instruments designated at fair value through OCI	-	-	-	-	-	-	-	7	-	7	-	7
Remeasurement of defined benefit plans	-	-	-	-	-	-	-	(22)	-	(22)	1	(21)
Exchange differences on translation of foreign operations...	-	-	-	-	-	-	-	936	-	936	-	936
Total comprehensive loss	-	-	-	-	-	-	-	921	(3,478)	(2,557)	5	(2,552)
Dividends declared to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2)	(2)
As of June 30, 2023 (unaudited)	416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,532	3,314	(133,244)	(102,302)	17,492	(84,810)

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

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

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

MECHEL PAO
SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended June 30, 2023

(All amounts are in millions of Russian rubles)

		Six months ended June 30,	
		2023	2022
	Notes	(unaudited)	(unaudited)
Cash flows from operating activities			
(Loss) profit		(3,474)	72,664
<i>Adjustments to reconcile profit to net cash provided by operating activities</i>			
Depreciation and amortisation		7,243	6,824
Foreign exchange losses (gains), net.....		24,315	(34,950)
Deferred income tax (benefit) expense.....	12	(5,077)	10,765
Allowance for expected credit losses.....		700	501
Gain on restructuring, forgiveness of and write-off of trade and other payables.....		(38)	(56)
Write-off of inventories to net realisable value.....		871	2,403
Impairment of goodwill and other non-current assets, net and loss on write-off of non-current assets.....	9	4,069	546
Finance income	7	(580)	(1,742)
Finance costs	7	12,642	16,697
Movements in provisions and probable tax risks		(1,905)	721
Other		(93)	(168)
<i>Changes in working capital items</i>			
Trade and other receivables		(217)	(11,927)
Inventories		(5,681)	(9,557)
Trade and other payables.....		1,061	(8,472)
Advances received		(160)	(5,610)
Taxes payable and other liabilities.....		3,932	3,006
Other assets		711	(442)
Income tax paid		(6,557)	(6,226)
Net cash provided by operating activities		31,762	34,977

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

MECHEL PAO
SUMMARY INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles)

		Six months ended June 30,	
	Notes	2023	2022
		(unaudited)	(unaudited)
Cash flows from investing activities			
Interest received.....		298	583
Proceeds from loans issued and other investments.....		11	175
Cash disposed of due to disposal of subsidiary		–	(43)
Proceeds from disposals of property, plant and equipment		86	124
Purchases of property, plant and equipment and intangible assets		(10,543)	(4,847)
Net cash used in investing activities		(10,148)	(4,008)
Cash flows from financing activities			
Proceeds from loans and borrowings.....		–	8,485
Repayment of loans and borrowings.....		(12,728)	(18,030)
Dividends paid to non-controlling interests.....		–	(2)
Interest paid, including fines and penalties		(9,238)	(14,013)
Payment of principal portion of lease liabilities.....		(3,013)	(1,793)
Repayment and proceeds from other financial liabilities, net		(54)	(1,907)
Net cash used in financing activities		(25,033)	(27,260)
Foreign exchange gains (losses) on cash and cash equivalents, net		802	(2,127)
Changes in allowance for expected credit losses on cash and cash equivalents.....		32	(111)
Net (decrease) increase in cash and cash equivalents		(2,585)	1,471
Cash and cash equivalents at beginning of period.....		23,700	17,701
Cash and cash equivalents, net of overdrafts at beginning of period.....		23,700	17,701
Cash and cash equivalents at end of period		21,115	19,172
Cash and cash equivalents, net of overdrafts at end of period		21,115	19,172

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

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

1. Corporate information

(a) Information

Mechel PAO ("Mechel" or "the parent") was incorporated on March 19, 2003, under the laws of the Russian Federation. The registered office is located at Krasnoarmeyskaya street 1, Moscow, 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the "Group".

(b) Business

The Group operates in three business segments: steel, mining and power and heat.

As of June 30, 2023, there were no significant changes in the composition of the Group or its business activities. The Group operates in highly competitive industries; any local or global industry downturn may have an adverse effect on the Group's results of operations and financial position.

These summary interim condensed consolidated financial statements as of June 30, 2023 and for the six months then ended were authorised for issue on August 28, 2023.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023

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

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

These summary interim condensed consolidated financial statements were derived by the Group's management from the unaudited interim condensed consolidated financial statements of the Group for the six months ended June 30, 2023 prepared by the Group in accordance with IAS 34, Interim Financial Reporting, removing the information disclosed which could cause damage to the Group and (or) its counterparties. The summary interim condensed consolidated financial statements do not constitute interim financial statements prepared in accordance with IAS 34, as the summary interim condensed consolidated financial statements after the removal of certain disclosures do not include all matters required to be disclosed in accordance with IAS 34.

The decision to prepare summary interim condensed consolidated financial statements and the composition of the removed information was made by the Group's management based on the Resolution of the Government of the Russian Federation dated July 4, 2023 No. 1102 "On special considerations of disclosure and (or) provision of information subject to disclosure and (or) provision in accordance with the requirements of the Federal Law "On Joint Stock Companies" and the Federal Law "On the Securities Market".

The Group's management decided not to publish the Group's interim condensed consolidated financial statements for the six months ended June 30, 2023 prepared by the Group in accordance with IAS 34, Interim Financial Reporting.

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

3. Changes to the Group's accounting policies

(a) Significant accounting estimates, assumptions and judgments

The preparation of the summary interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the summary interim condensed consolidated financial statements, and the amounts of revenues and expenses recognised during the reporting period. Estimates and assumptions are continually evaluated and are based on the Group's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these summary interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements as at and for the year ended December 31, 2022.

(b) Reclassifications

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

(c) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the summary interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of the new standards, interpretations and amendments effective as of January 1, 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023

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

The following applicable amended standards became effective from January 1, 2023, but did not have any material impact on the summary interim condensed consolidated financial statements of the Group:

- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting policies* (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023).
- Amendments to IAS 8 – *Definition of Accounting Estimates* (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023).
- Amendments to IAS 12 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (issued on May 7, 2021 and effective for annual reporting periods beginning on or after January 1, 2023).

4. Going concern

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

As of June 30, 2023, the Group's total liabilities exceeded total assets by RUB 84,810 million and current liabilities exceeded current assets by RUB 204,474 million.

As of June 30, 2023, the Group was not in compliance with the payment schedules under certain credit facilities of foreign banks and lenders and a number of financial and non-financial covenants contained in the Group's loan agreements as further described in Note 10.1. These breaches constitute an event of default and, as a result, the lenders may request accelerated repayment of a substantial portion of the Group's debt including repayment requests on overdue principal and interest from foreign banks. As of June 30, 2023, the Group's debt payable on demand was RUB 257,250 million, including RUB 184,217 million of long-term loans and borrowings classified as short-term loans and borrowings due to contractual cross-default provisions and breaches of financial and non-financial covenants. As of the date these summary interim condensed consolidated financial statements were authorized for issue, the Group did not have sufficient own resources to enable it to comply with such repayment requests. No requests demanding early repayment of debt due to violation of restrictive covenants from creditors were received by the Group as of the date these summary interim condensed consolidated financial statements were authorized for issue. The Group's primary objectives of capital management are to ensuring the efficient operation of all companies of the Group in order to maximize the generated cash flow using the resources available to the Group to meet planned operating indicators, making capital investments to maintain and expand production capacities, rigorously meeting obligations on restructured financial debt, as well as consistently reducing the debt burden, optimization of the cost of financial debt, diversification of the loan portfolio by currencies. Since restructuring, the Group has been in compliance with all agreed payment schedules with the Russian banks. The restructuring discussions on the overdue debt were suspended due to the current geopolitical situation. Restructuring discussions could be relaunched as soon as more clarity appears in cross restricted operations on the European and Russian financial markets.

Restrictions on the export of coal products from Russia to the European Union led to reorientation of sales to alternative regions. As for the steel segment, imposed sanctions concerned export of long steel products from Russia to Europe. There was a sales decrease at European trading companies due to sanctions in 2023.

The circumstances mentioned above, indicate the existence of a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

Further sanctions could have an adverse impact on the Group's business. The global economic climate continues to be unstable and this may negatively affect the Group's results and financial position in a manner not currently determinable. Management expects that prices for the Group's products will allow the Group to focus on planned enhancement of crude steel production, diversification of product range and focus on sales within the CIS and Asia to further respond to economic changes, and to ensure the Group will continue as a going concern.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

5. Fair value measurement

Management assessed that the fair values of Group's financial instruments (other than trade receivables arising from provisionally priced contracts) approximate their carrying amounts. Valuation techniques during the six months ended June 30, 2023 were not changed.

The fair value of loans and borrowings approximate their carrying amounts largely due to demand feature under the loan agreements caused by contractual cross-default provisions and breaches of financial and non-financial covenants.

As of June 30, 2023 and December 31, 2022, trade receivables of RUB 36 million and RUB 362 million arising from provisionally priced sales contracts were measured at fair value through profit or loss upon recognition (Level 2). The adjustments to the final price on provisionally priced sales contracts measured at fair value resulted in a net gain of RUB 28 million and RUB 886 million are recorded within revenue for the six months ended June 30, 2023 and 2022, respectively.

6. Segment information

The following tables present segment information for the Group's operating segments for the six months ended June 30, 2023 and 2022:

Six months ended June 30, 2023 (unaudited)	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers	48,568	128,856	17,262	–	194,686
Inter-segment revenue	18,660	3,363	10,414	(32,437)	–
Gross profit	30,899	34,716	8,787	(923)	73,479
Depreciation and amortisation	(3,644)	(3,454)	(145)	–	(7,243)
Operating profit	8,287	19,703	1,985	(983)	28,992
Finance income	392	183	5	–	580
Inter-segment finance income	36	491	–	(527)	–
Finance costs	(3,919)	(8,615)	(108)	–	(12,642)
Inter-segment finance costs	(321)	(36)	(170)	527	–
Income tax (expense) benefit	(1,701)	4,142	(414)	1,872	3,899
Profit (loss)	5,339	(10,999)	1,297	889	(3,474)

Six months ended June 30, 2022 (unaudited)	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers	76,323	157,680	15,151	–	249,154
Inter-segment revenue	32,557	3,130	8,904	(44,591)	–
Gross profit	68,176	35,194	6,483	478	110,331
Depreciation and amortisation	(3,383)	(3,317)	(124)	–	(6,824)
Operating profit	47,943	21,766	66	125	69,900
Finance income	901	823	18	–	1,742
Inter-segment finance income	534	1,036	35	(1,605)	–
Finance costs	(7,245)	(9,302)	(150)	–	(16,697)
Inter-segment finance costs	(780)	(381)	(444)	1,605	–
Income tax expense	(2,165)	(12,627)	(44)	(2,167)	(17,003)
Profit (loss)	34,912	40,311	(517)	(2,042)	72,664

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

7. Finance income and finance costs

Finance income is comprised of the following:

	Six months ended June 30, 2023 (unaudited)	Six months ended June 30, 2022 (unaudited)
Interest income on other financial assets	349	575
Income from the discounting of financial instruments.....	29	17
Effect of loans restructuring.....	–	1,150
Other	202	–
Total.....	580	1,742

Finance costs are comprised of the following:

	Six months ended June 30, 2023 (unaudited)	Six months ended June 30, 2022 (unaudited)
Interest on loans and borrowings	10,273	14,386
Fines and penalties on overdue loans and borrowing payments and overdue interest payments.....	734	511
Interest expense on lease liabilities.....	1,115	1,120
Fines and penalties on overdue leases and trade payables.....	67	148
Total finance costs related to loans, borrowings and leases.....	12,189	16,165
Unwinding of discount on rehabilitation provision.....	268	184
Interest expenses under pension liabilities	138	130
Unwinding of discount of financial instruments.....	47	218
Total.....	12,642	16,697

8. Property, plant and equipment and right-of-use assets

The Group acquired property, plant and equipment in the amount of RUB 9,179 million and RUB 6,483 million for the six months ended June 30, 2023 and 2022, respectively. During the period ended June 30, 2023, the Group capitalized production phase stripping costs of RUB 3,755 million within “Property, plant and equipment” as part of Mining assets subject to depletion under units of production method.

The additions to right-of-use assets were RUB 8,801 million during the six months ended June 30, 2023 (for the six months ended June 30, 2022: RUB 1,226 million). The Group received additional railway carriages from one of the lessors resulting in addition to right-of use assets and lease liabilities in the amount of RUB 6,283 million.

Depreciation charge of property, plant and equipment and right-of-use assets included in the summary interim condensed consolidated statement of profit or loss and other comprehensive income amounted to RUB 4,061 million and RUB 2,850 million for the six months ended June 30, 2023, respectively (for the six months ended June 30, 2022: RUB 4,125 million and RUB 2,232 million, respectively).

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

9. Impairment of goodwill and other non-current assets

As of June 30, 2023, the Group performed an impairment analysis of goodwill and other non-current assets at the level of CGU when there were indications that they may be impaired. The indicators of impairment were identified at two mining CGUs.

As of June 30, 2023, the recoverable amount of CGUs was determined based on value in use. Inflation rates, range of discount rates, U.S. dollar to Russian ruble exchange rates estimated for each year for the forecasted period, were as follows:

As of June 30, 2023	Forecast period, years				
	2023	2024	2025	2026	2027
Inflation rate in Russia	7.0%	7.0%	6.0%	5.0%	4.0%
World inflation rate	5.6%	3.9%	3.0%	2.9%	2.9%
Pre-tax discount rate, %	15.8%-19.8%	15.8%-19.8%	15.8%-19.8%	15.8%-19.8%	15.8%-19.8%
U.S. dollar to Russian ruble exchange rate	82.64	88.54	89.09	89.64	90.19

Impairment of goodwill

During six months ended June 30, 2023, goodwill was impaired in the amount of RUB 3,540 million due to the shift in extraction and sales volumes to subsequent years.

Impairment of non-current assets

Estimated future cash flows remained negative at previously impaired CGUs; therefore, according to the results of the impairment testing at the level of CGUs, an impairment loss of RUB 527 million was recognised as of June 30, 2023 and allocated to the non-current assets acquired during six months ended June 30, 2023.

Sensitivity analysis

Reasonably possible change in key assumptions used in calculations of value in use could impact recoverable amount which was most sensitive to the growth of discount rate, changes in Russian ruble exchange rates to U.S. dollar, and change in operating profit due to changes in sales and extraction volumes and selling prices.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

10. Financial liabilities

10.1 Loans and borrowings

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

	June 30, 2023 (unaudited)		December 31, 2022	
	Interest rate, %	Amounts outstanding	Interest rate, %	Amounts outstanding
Long-term loans and borrowings				
In Russian rubles				
Banks and financial institutions	5.0-9.0	122,308	5.0-9.0	131,373
Corporate lenders.....	9.3	56	9.3	54
In U.S. dollars				
Banks and financial institutions	11.8	28,259	10.0	21,374
In euro				
Banks and financial institutions	3.0-8.7	78,032	2.0-7.0	61,632
In Chinese yuan				
Banks and financial institutions	4.95	28,700	4.95	26,148
Current portion of long-term loans and borrowings		(257,269)		(240,496)
Total.....		86		85

	June 30, 2023 (unaudited)		December 31, 2022	
	Interest rate, %	Amounts outstanding	Interest rate, %	Amounts outstanding
Short-term loans and borrowings and current portion of long-term loans and borrowings				
In Russian rubles				
Banks and financial institutions		—	9.0	15
In euro				
Banks and financial institutions	4.7	60	2.8	226
Current portion of long-term loans and borrowings		257,269		240,496
Total.....		257,329		240,737

(a) Credit facilities

The weighted average interest rates were 10.1%, 13.3% and 6.4% for the ruble-, U.S. dollar- and euro-denominated credit facilities, respectively, for the six months ended June 30, 2023.

In July-August 2023, new ruble-denominated loans in the amount of RUB 23,010 million were received to finance specified activities.

(b) Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, other limitations, acceleration and cross-default provisions. The Group's management constantly monitors profitability and leverage ratios as well as compliance with restrictive covenants.

As of June 30, 2023, the Group was not in compliance with certain financial and non-financial covenants set by the loan agreements with banks. There was a default on payments in the amount of RUB 48,900 million as of June 30, 2023 and in the amount of RUB 37,768 million as of December 31, 2022, relating to the loan agreements with foreign banks. The Group regularly receives notifications on defaults under the facility agreements with foreign banks, as well as reservation of rights letters and calls of guarantees.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

10.2 Leases

The Group's lease contracts contain a number of restrictions, which include but are not limited to cross-default provisions. As of June 30, 2023 and December 31, 2022, the Group was not in compliance with certain covenants under a number of loan agreements and certain lease contracts. As a result, the related long-term lease liabilities of RUB 3,393 million and RUB 4,558 million were reclassified to short-term lease liabilities as of June 30, 2023 and December 31, 2022, respectively.

The Group has lease contracts that have not yet commenced as of June 30, 2023 with the future lease payments of RUB 2,117 million (excluding VAT).

11. Provisions and contingencies

Rehabilitation provision

The discount rate used in the calculation of the provision as of June 30, 2023 equaled 11.2%. A 0.5% decrease in the discount rates applied to the June 30, 2023 amount would result in an increase to the closure and rehabilitation provision and increase in property, plant and equipment of RUB 177 million.

Legal claim contingency

As of June 30, 2023, management assesses the outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 2,200 million as possible based on the management's analysis and discussions with the legal advisers.

Provisions for taxes other than income tax

Management believes that the Group has paid or accrued all applicable taxes. The Group recorded RUB 452 million and RUB 380 million of other tax claims including fines and penalties that management believes are probable as of June 30, 2023 and December 31, 2022, respectively.

Possible tax liabilities for other tax claims including fines and penalties, which were identified by management as those that can be subject to different interpretations of the tax law and regulations, are not accrued in the summary interim condensed consolidated financial statements. The amount of such liabilities was RUB 257 million and RUB 203 million as of June 30, 2023 and December 31, 2022, respectively.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

12. Income tax

The major components of income tax expense for the six months ended June 30, 2023 and 2022 are:

	Six months ended June 30, 2023 (unaudited)	Six months ended June 30, 2022 (unaudited)
Recognised in profit or loss		
Current income tax		
Current income tax charge	3,423	5,653
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position	(2,245)	585
Deferred tax		
Relating to origination and reversal of temporary differences	(5,077)	10,765
Income tax (benefit) expense reported in the summary interim condensed consolidated statement of profit or loss and other comprehensive income.	(3,899)	17,003

The increase in deferred tax benefit recognised in the summary interim condensed consolidated statement of profit or loss and other comprehensive income was mainly due to the increase in foreign exchange losses related to outstanding obligations denominated in foreign currencies that are non-taxable until the date of fulfilment of obligation. Foreign exchange losses for the six months ended June 30, 2023 related to revaluation of the Group's loans denominated in Euro, U.S. dollar and Chinese yuan due to the weakening of the Russian Ruble. Probable income tax risks of RUB 1,851 million and RUB 7,289 million as of June 30, 2023 and December 31, 2022, respectively, have been recorded in the Group's consolidated financial statements. The decrease in probable income tax risks was related to the Consolidated Group of taxpayers. The consolidated group of taxpayers agreement expired on December 31, 2022.

Possible income tax risks of RUB 3,755 million and RUB 2,982 million as of June 30, 2023 and December 31, 2022, respectively, have not been recognised in the Group's consolidated financial statements.

On August 4, 2023, the Federal Law No. 414-FZ On Excess Profits Tax was adopted in Russia. The Law establishes the procedure to determine and pay a one-off excess profits tax. According to the provisions of the Law, Russian entities (subject to a number of exceptions envisaged by the Law) shall file a corresponding tax return with the tax authorities until January 25, 2024 and pay the excess profits tax calculated at a rate of 10% until January 28, 2024. The tax base for the excess profits tax is determined as an excess of the arithmetic mean of profits for 2021-2022 over the same indicator for 2018-2019. The Law provides an opportunity to reduce the effective tax rate to 0% or 5% when specific conditions are met and an option of voluntary security deposit payment during the period from 1 October through 30 November 2023. This amount will form a tax credit, which can be used by the taxpayer to reduce the tax amount. The amount of this tax credit cannot exceed ½ of the amount of the calculated tax. The tax credit is assumed to be equal to zero if the security deposit is repaid (in full or in part) over the taxpayer's claim. The Group's management is evaluating the amount of this excess profits tax.

MECHEL PAO
NOTES TO THE SUMMARY INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2023
(All amounts are in millions of Russian rubles, unless stated otherwise)

13. Inventories

	June 30, 2023 (unaudited)	December 31, 2022
Raw materials.....	22,387	19,912
Work in progress	16,293	12,985
Finished goods and goods for resale	27,027	27,374
Total inventories at the lower of cost and net realisable value.....	65,707	60,271

During six months ended June 30, 2023, RUB 871 million (six months ended June 30, 2022: RUB 2,403 million) was recognised as an expense within cost of sales for inventories carried at net realisable value due to prices volatility. The amount of inventories recognised as an expense during the period was RUB 112 260 million for six months ended June 30, 2023 (six months ended June 30, 2022: RUB 131,209 million).

14. Events after the reporting period

The Group evaluated subsequent events from June 30, 2023 through the date the summary interim condensed consolidated financial statements were authorized for issue and concluded that no subsequent events have occurred that would require adjustments or disclosures in the summary interim condensed consolidated financial statements other than as discussed below and disclosed in Notes 10.1, 11 and 12.

Developments related to geopolitical conflict in Ukraine and subsequent sanctions are highly unpredictable, occur swiftly and often without notice and are outside the control of the Group. Current and future risks to the Group include, among others, the risk of reduced access to capital markets and ability to obtain financing and repay debt or perform restructuring, along with the risk of the Russian ruble elevated volatility, high inflation and increase in the Group's financing costs due to the impact on floating rate credit facilities.