



CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2020

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Independent auditor's report

Translation of the original Russian version

To the Shareholders and Board of Directors of
public joint stock company Mechel

Opinion

We have audited the consolidated financial statements of public joint stock company Mechel and its subsidiaries (the Group) for the year ended 31 December 2020, which comprise the consolidated statement of profit (loss) and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 4 to the consolidated financial statements, which indicates that, as at 31 December 2020, the Group has significant debt that it does not have the ability to repay without it refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks as at 31 December 2020. As stated in Note 4, these events or conditions, along with other matters as set forth in Note 4 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of goodwill and other non-current assets</i></p> <p>As at 31 December 2020, the Group's management performed mandatory impairment test of cash-generating units with allocated goodwill, and also tested cash-generating units with plant and equipment and mineral licenses with identified indications of impairment in accordance with IAS 36, Impairment of Assets. As a result of performed tests, the Group's management recognized an impairment loss in respect of goodwill at Yakutugol and other non-current assets. The Group disclosed information on impairment tests and related impairment losses in Note 17 to the consolidated financial statements.</p> <p>We consider this a key audit matter for our audit of the Group's consolidated financial statements due to materiality of respective non-current assets balance and high degree of subjectivity of assumptions used by the Group's management in the impairment tests. Auditing management's recoverability assessment was complex given the judgement and estimation uncertainty involved in determining certain assumptions due to the combination of highly volatile coal prices, ruble exchange rate fluctuations and uncertainty over the future economic growth that may negatively affect the Group's business prospects.</p> <p>Key assumptions included discount rates, forecasts of coal and steel product prices and sales volumes, terminal growth rates and operating costs. The key assumptions are forward looking, and subject to the inherent unpredictability of future global economic and market conditions which makes their determination particularly subjective and judgemental. Reasonably possible changes in the key assumptions could have affected the impairment loss recognized by the Group as at 31 December 2020. Management disclosed this information in Note 17 to the consolidated financial statements.</p>	<p>We tested controls over completeness and correctness of input data and over determination of key assumptions used by management in impairment tests.</p> <p>We considered management's analysis for identification of impairment indicators. We focused our procedures on the cash generating units with the significant carrying values, those for which impairment was recognized in prior periods and in the current year and those with the lowest difference between the recoverable amount and the carrying amount. Specifically, such cash generating unit is represented by Yakutugol.</p> <p>Our procedures in respect of the impairment tests included, among others, analysis of key management's assumptions, such as discount rates, forecasts of coal and steel product prices and sales volumes, terminal growth rates and operating costs as the recoverable amounts are most sensitive to changes in these assumptions.</p> <p>We analysed changes in assumptions from prior periods and performed a comparison of assumptions with external market data where applicable. We involved our internal valuation specialists to assist us with these procedures.</p> <p>We tested management's sensitivity analyses, evaluating whether a reasonably possible change in the key assumptions could cause the carrying amount to exceed the recoverable amount for the tested cash generating units. We evaluated influence of coal prices decline and potential uncertainty in timing of sale volumes recovery due to the COVID-19 pandemic spread on the recoverable amounts.</p> <p>We compared management's forecasts of prior periods to actual results.</p> <p>We assessed the adequacy of the disclosures related to impairment tests in the consolidated financial statements.</p>

Translation of the original Russian version

Key audit matter	How our audit addressed the key audit matter
<i>Assessment of the Group's ability to utilize accumulated tax losses of the consolidated group of taxpayers</i>	
<p>As stated in Note 19 to the consolidated financial statements, a number of the Russian subsidiaries of the Group are included in the consolidated group of taxpayers under agreement that terminates on 1 January 2023. Due to the fact that the consolidated group of taxpayers has accumulated a significant tax loss since its establishment, management performed a detailed analysis to determine what portion of this accumulated tax loss could be used by the Group to reduce income tax in subsequent periods.</p> <p>We consider this a key audit matter due to the materiality of accumulated tax losses and their effect on deferred tax liabilities and assets of the Group, as well as due to the complex assessment process which is affected by subjective judgments made by management of the Group and a certain level of estimation uncertainty regarding the likely timing and the amount of future taxable profits to be generated to support the realization of the existing deferred tax assets before expiration. Key assumptions used by management included revenue and costs forecasts (coal and steel product prices and sales volumes, operating costs) that are affected by future market or economic conditions.</p>	<p>We tested internal controls implemented by management over assessment of the deferred tax asset related to the accumulated tax loss of the consolidated group of taxpayers, including controls over completeness and correctness of input data and determination of key assumptions used by management.</p> <p>We compared management's methodologies and key assumptions with those used in non-current assets impairment tests and going concern evaluation model, as well as with the requirements of the tax legislation. We also tested these assumptions for sensitivity to reasonable possible changes and performed scenario analysis including stress testing. Possible scenarios, among others, included evaluation of uncertainty in timing of sale volumes recovery due to the COVID-19 pandemic impact. We tested the completeness and accuracy of the underlying data used in its projections.</p> <p>Our procedures, among others, included comparison of management's forecasts of future taxable profits with the budgets and forecasts used for non-current assets impairment tests and with the actual results of the consolidated group of taxpayers. We compared the projections of future taxable income with the actual results of prior periods, as well as evaluated management's consideration of current industry and economic trends.</p> <p>In addition, we involved our income tax professionals who assisted us in assessing the Group's application of the relevant tax regulations to the forecasted taxable income of the consolidated group of taxpayers.</p> <p>We assessed the adequacy of the disclosures related to deferred income taxes on the accumulated tax losses of the consolidated group of taxpayers in the consolidated financial statements.</p>
<i>Risks of improper revenue recognition</i>	
<p>Revenue from contracts with customers is a management's and stakeholders' focus area in terms of evaluating previous and expected results of the Group. Revenue per segments is disclosed in Note 26 to the consolidated financial statements. We consider the risk of material misstatement in revenue due to fraud at the Group's trading components to be significant in respect of the incorrect recognition of revenues in cases, when control has not been transferred, and risks and rewards have not passed to the customers, or when revenues are recorded for sales that either did not occur, or did not occur in the amounts recorded by management or when at the signing of the contract it is known that cash collection is not probable due to customer's solvency or liquidity problems.</p>	<p>We obtained understanding of the revenue recognition process and performed tests of relevant internal controls at the Group components, including controls over completeness and accuracy of data used to process sales transactions through contracting with customers to recording revenues.</p> <p>We analyzed conditions of new significant contracts with customers and changes in existing significant contracts and considered the Group's approach to recognition of respective revenues.</p> <p>Our procedures, among others, included tests of the revenues transactions on a sample basis recorded soon before and after the year-end at the Group's components level. We also evaluated responses to the inquiries of sales personnel about the occurrence of non-standard sales activities, including those related to the period near year-end, and about the non-standard conditions in contracts with customers.</p>

Translation of the original Russian version

Key audit matter	How our audit addressed the key audit matter
We consider this a key audit matter due to significance of revenues from customers for the Group's performance assessment by the stakeholders, which might create pressure and incentives for the management to record revenues where control has not been transferred to the customers or consideration for goods and services is unlikely to be received, or to misstate the amounts of revenues.	<p>We performed tests of sales transactions at the level of trading components over the whole year. For the selected samples, we obtained and tested evidence supporting the recognized amounts.</p> <p>In addition, we tested a sample of manual journals to revenue so as to identify unusual or irregular items.</p> <p>We analyzed revenue fluctuations by months and types of products and services, compared the Group's components contract prices to the market price levels and management budgets and performed the analysis of gross margin fluctuations.</p> <p>We performed analysis of customers profiles to evaluate their financial performance and conditions, and compared the results with the Groups' management analysis.</p> <p>We assessed the adequacy of the disclosures related to revenue recognition in the consolidated financial statements.</p>

Other information included in the Group's annual report

Other information consists of the information included in the Group's Annual Report on Form 20-F, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report on Form 20-F is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is E.V. Khramova.

E.V. KHRAMOVA
Partner
Ernst & Young LLC

11 March 2021

Details of the audited entity

Name: public joint stock company 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.

Details of the auditor

Name: Ernst & Young LLC
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.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND
OTHER COMPREHENSIVE INCOME
for the year ended December 31, 2020

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

	Notes	Year ended December 31, 2020	Year ended December 31, 2019*	Year ended December 31, 2018*
Continuing operations				
Revenue from contracts with customers	26	265,454	287,153	303,795
Cost of sales		(170,605)	(183,086)	(174,058)
Gross profit	26	94,849	104,067	129,737
Selling and distribution expenses		(49,994)	(48,432)	(49,752)
Impairment of goodwill and other non-current assets, net.....	17	(3,897)	(1,804)	(7,222)
Allowance for expected credit losses on financial assets.....	12, 14	(149)	(234)	(941)
Taxes other than income taxes.....		(3,446)	(4,517)	(4,026)
Administrative and other operating expenses	24.1	(18,437)	(15,568)	(18,332)
Other operating income	24.3	999	688	1,682
Total selling, distribution and operating income and (expenses), net.....		(74,924)	(69,867)	(78,591)
Operating profit		19,925	34,200	51,146
Finance income.....	24.4	3,504	590	33,943
Finance costs including fines and penalties on overdue loans and borrowings and lease payments.....	24.4	(25,145)	(33,863)	(37,514)
Foreign exchange (loss) gain, net		(36,388)	18,288	(24,187)
Share of profit of associates, net.....	7	20	28	10
Other income	24.5	718	228	498
Other expenses.....	24.5	(259)	(483)	(346)
Total other income and (expense), net		(57,550)	(15,212)	(27,596)
(Loss) profit before tax from continuing operations.....		(37,625)	18,988	23,550
Income tax expense	19	(2,528)	(7,913)	(2,653)
(Loss) profit for the period from continuing operations...		(40,153)	11,075	20,897
Discontinued operations				
Profit (loss) after tax for the period from discontinued operations.....	25	41,609	(6,790)	(7,361)
Profit for the period		1,456	4,285	13,536
Attributable to:				
Equity shareholders of Mechel PAO		808	2,409	12,628
Non-controlling interests		648	1,876	908

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Chief Executive Officer of Mechel PAO



Oleg V. Korzhov



March 11, 2021

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

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND
OTHER COMPREHENSIVE INCOME (continued)
for the year ended December 31, 2020
(All amounts are in millions of Russian rubles, unless stated otherwise)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019*	Year ended December 31, 2018*
Other comprehensive income				
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods, net of income tax</i>		2,042	(1,771)	(9)
Exchange differences on translation of foreign operations....		2,042	(1,771)	(9)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods, net of income tax</i>		253	(867)	487
Net gain (loss) on equity instruments designated at fair value through other comprehensive income.....		53	—	—
Re-measurement of defined benefit plans.....	21	200	(867)	487
Other comprehensive income (loss) for the period, net of tax		2,295	(2,638)	478
Total comprehensive income for the period, net of tax		3,751	1,647	14,014
Attributable to:				
Equity shareholders of Mechel PAO		3,099	(210)	13,096
Non-controlling interests		652	1,857	918
Earnings per share				
Weighted average number of common shares	23	412,589,910	416,256,510	416,270,745
Earnings per share (Russian rubles per share) attributable to common equity shareholders – basic and diluted.....	23	1.96	5.79	30.34
(Loss) earnings per share from continuing operations (Russian rubles per share) – basic and diluted	23	(98.89)	22.10	48.02
Earnings (loss) per share from discontinued operations (Russian rubles per share) – basic and diluted	23	100.85	(16.31)	(17.68)

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Chief Executive Officer of Mechel PAO



Oleg V. Korzhov

March 11, 2021

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

MECHEL PAO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2020

(All amounts are in millions of Russian rubles)

	Notes	December 31, 2020	December 31, 2019
Assets			
Non-current assets			
Property, plant and equipment	15, 17	81,345	179,264
Right-of-use assets	10.2	12,840	17,728
Mineral licenses	16	18,458	31,075
Goodwill and other intangible assets	16, 17	10,383	13,652
Investments in associates	7	341	321
Deferred tax assets	19	561	3,648
Other non-current assets	13	611	553
Non-current financial assets		445	232
Total non-current assets		124,984	246,473
Current assets			
Inventories	11	42,138	39,773
Income tax receivables		45	65
Trade and other receivables, net	12	16,403	15,340
Other current assets	13	8,423	6,982
Other current financial assets		141	363
Cash and cash equivalents	14	1,706	3,509
Total current assets		68,856	66,032
Total assets		193,840	312,505
Equity and liabilities			
Equity			
Common shares	23	4,163	4,163
Preferred shares	23	840	840
Treasury shares	23	(907)	(63)
Additional paid-in capital	23	23,410	24,434
Accumulated other comprehensive income (loss)		1,391	(848)
Accumulated deficit		(273,186)	(273,754)
Equity attributable to equity shareholders of Mechel PAO		(244,289)	(245,228)
Non-controlling interests		13,618	11,631
Total equity		(230,671)	(233,597)
Non-current liabilities			
Loans and borrowings	10.1	2,201	7,205
Lease liabilities	10.2	3,958	7,002
Other non-current financial liabilities	10.5	1,901	48,303
Other non-current liabilities		301	105
Pension obligations	21	5,232	4,933
Provisions	22	4,802	5,238
Deferred tax liabilities	19	6,773	13,877
Total non-current liabilities		25,168	86,663
Current liabilities			
Loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 13,227 million and RUB 11,111 million as of December 31, 2020 and 2019, respectively	10.1	314,836	381,317
Trade and other payables	18	43,783	38,244
Lease liabilities	10.2	7,535	10,353
Income tax payable		7,843	9,161
Taxes and similar charges payable other than income tax	20	10,969	9,228
Advances received	26	6,067	4,975
Other current financial liabilities	10.2	324	147
Other current liabilities		1,038	841
Pension obligations	21	631	615
Provisions	22	6,317	4,558
Total current liabilities		399,343	459,439
Total liabilities		424,511	546,102
Total equity and liabilities		193,840	312,505

Chief Executive Officer of Mechel PAO



Oleg V. Korzhov



March 11, 2021

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2020
(All amounts are in millions of Russian rubles, unless shares numbers)

Attributable to equity shareholders of the parent										
Notes	Common shares		Preferred shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to share-holders of Mechel PAO	Non-controlling interests	Total equity
	Quantity	Amount	Quantity	Amount						
As of January 1, 2018	416,270,745	4,163	83,254,149	833	24,378	1,303	(285,427)	(254,750)	8,928	(245,822)
Profit for the period	-	-	-	-	-	-	12,628	12,628	908	13,536
<i>Other comprehensive income (loss)</i>										
21	-	-	-	-	-	487	-	487	-	487
	-	-	-	-	-	(19)	-	(19)	10	(9)
	-	-	-	-	-	468	12,628	13,096	918	14,014
23	-	-	-	-	-	-	(1,387)	(1,387)	-	(1,387)
	416,270,745	4,163	83,254,149	833	24,378	1,771	(274,186)	(243,041)	9,846	(233,195)

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2020
(All amounts are in millions of Russian rubles, unless shares numbers)

Notes	Attributable to equity shareholders of the parent							Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
	Common shares	Preferred shares	Treasury shares	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit				
	Quantity	Amount	Quantity	Amount	Amount					
As of January 1, 2019 before the effect of IFRS 16	416,270,745	4,163	83,254,149	833	—	24,378	1,771	(243,041)	9,846	(233,195)
Adjustment on initial application of IFRS 16	—	—	—	—	—	—	—	(461)	(72)	(533)
3 As of January 1, 2019 adjusted for the effect of IFRS 16	416,270,745	4,163	83,254,149	833	—	24,378	1,771	(243,502)	9,774	(233,728)
Profit for the period	—	—	—	—	—	—	—	2,409	1,876	4,285
<i>Other comprehensive income (loss)</i>										
Re-measurement losses on defined benefit plans	—	—	—	—	—	—	(848)	—	(19)	(867)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(1,771)	—	—	(1,771)
21 Total comprehensive income (loss) for the period	—	—	—	—	—	—	(2,619)	2,409	1,857	1,647
Sale of preferred shares kept as treasury shares by the Group	—	—	709,130	7	—	56	—	63	—	63
Reacquired common shares	—	—	—	—	(1,018,996)	(63)	—	(63)	—	(63)
Dividends declared to equity shareholders of Mechel PAO	—	—	—	—	—	—	—	(1,516)	—	(1,516)
23 As of December 31, 2019	416,270,745	4,163	83,963,279	840	(1,018,996)	(63)	24,434	(245,228)	11,631	(233,597)

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2020
(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 other 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, 2020.....	416,270,745	4,163	83,963,279	840	(1,018,996)	(63)	24,434	(848)	(273,754)	(245,228)	11,631	(233,597)
Profit for the period.....	-	-	-	-	-	-	-	-	808	808	648	1,456
Other comprehensive income (loss)												
Re-measurement of equity instruments designated at fair value through OCI.....	-	-	-	-	-	-	-	53	-	53	-	53
Re-measurement losses on defined benefit plans.....	-	-	-	-	-	-	-	196	-	196	4	200
Exchange differences on translation of foreign operations.....	-	-	-	-	-	-	-	2,042	-	2,042	-	2,042
Total comprehensive income for the period.....	-	-	-	-	-	-	-	2,291	808	3,099	652	3,751
Transfer of actuarial gains (losses) due to disposal of discontinued operations.....	-	-	-	-	-	-	-	(52)	52	-	-	-
Reacquired common shares.....	-	-	-	-	(10,475,623)	(844)	-	-	-	(844)	-	(844)
Dividends declared to equity shareholders of Mechel PAO.....	-	-	-	-	-	-	-	-	(292)	(292)	-	(292)
Sale and purchase of non-controlling interests.....	-	-	-	-	-	-	(1,024)	-	-	(1,024)	1,335	311
As of December 31, 2020.....	416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,410	1,391	(273,186)	(244,289)	13,618	(230,671)



[Signature]

March 11, 2021

Oleg V. Korzhov

Chief Executive Officer of Mechel PAO

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2020
(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31,		
		2020	2019	2018
Cash flows from operating activities				
(Loss) profit for the period from continuing operations.....		(40,153)	11,075	20,897
Profit (loss) after tax for the period from discontinued operations	25	41,609	(6,790)	(7,361)
Profit for the period.....		1,456	4,285	13,536
<i>Adjustments to reconcile profit to net cash provided by operating activities</i>				
Depreciation and amortisation		14,818	15,176	13,859
Foreign exchange loss (gain), net		37,765	(19,241)	25,775
Deferred income tax expense (benefit)	19	2,574	2,288	(2,596)
Changes in allowance for expected credit losses and write-off of trade and other receivables and payables, net.....		48	73	517
Write-off of inventories to net realisable value.....		928	1,763	1,162
Impairment of goodwill and other non-current assets, net and loss on write-off of non-current assets		4,350	2,880	7,953
Finance income.....		(3,504)	(600)	(34,056)
Finance costs including fines and penalties on overdue loans and borrowings and lease payments.....	24.4, 25	26,853	38,830	42,052
Provisions for legal claims, income tax and other taxes and other provisions		24	3,630	4,940
Gain on sale of discontinued operations	25	(45,580)	—	—
Other		(167)	198	575
<i>Changes in working capital items</i>				
Trade and other receivables		(236)	1,546	1,354
Inventories		(5,283)	(1,511)	(7,858)
Trade and other payables		1,137	4,037	4,150
Advances received.....		995	650	485
Taxes payable and other liabilities.....		4,580	5,151	683
Other assets.....		(1,474)	1,238	(851)
Income tax paid		(1,335)	(2,735)	(3,562)
Net cash provided by operating activities		37,949	57,658	68,118

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended December 31, 2020
(All amounts are in millions of Russian rubles)

		Year ended December 31,		
	Notes	2020	2019	2018
Cash flows from investing activities				
Interest received		129	76	188
Royalty and other proceeds associated with disposal of subsidiaries.....		—	17	3
Proceeds from loans issued and other investments		39	313	9
Proceeds from disposal of the discontinued operations, net of cash disposed of.....	25	88,979	—	—
Proceeds from disposals of property, plant and equipment ..		119	211	215
Purchases of property, plant and equipment		(4,826)	(6,282)	(5,472)
Purchases of intangible assets.....		—	—	(150)
Interest paid, capitalised		(57)	(256)	(440)
Net cash provided by (used in) investing activities		84,383	(5,921)	(5,647)
Cash flows from financing activities				
Proceeds from loans and borrowings, including proceeds from factoring arrangement of RUB 1 million, RUB 214 million and RUB 918 million for the periods ended December 31, 2020, 2019 and 2018, respectively ...	14	77,367	7,599	76,504
Repayment of loans and borrowings, including payments from factoring arrangement of RUB 353 million, RUB 2,222 million and RUB 435 million for the periods ended December 31, 2020, 2019 and 2018, respectively ...	14	(176,883)	(20,772)	(97,269)
Repayment of other current financial liabilities.....	14	—	—	(442)
Repurchase of common shares	23	(844)	—	—
Sale and purchase of non-controlling interest in subsidiaries.....	23	169	—	—
Dividends paid to shareholders of Mechel PAO.....	14	(292)	(1,515)	(1,386)
Dividends paid to non-controlling interests	14	(3)	(16)	(8)
Interest paid, including fines and penalties.....	14	(22,912)	(30,923)	(33,308)
Payment of principal portion of lease liabilities	14	(2,660)	(2,276)	(2,780)
Sale and leaseback transactions	14	462	248	—
Acquisition of assets under deferred payment terms	14	(508)	(341)	(629)
Deferred consideration paid for the acquisition of subsidiaries in prior periods	14	—	(361)	(3,968)
Net cash used in financing activities.....		(126,104)	(48,357)	(63,286)
Foreign exchange (loss) gain on cash and cash equivalents, net		(61)	(891)	63
Changes in allowance for expected credit losses on cash and cash equivalents.....	14	28	(2)	(91)
Net (decrease) increase in cash and cash equivalents		(3,805)	2,487	(843)
Cash and cash equivalents at beginning of period	14	3,509	1,803	2,452
Cash and cash equivalents, net of overdrafts at beginning of period	14	2,867	380	1,223
Cash and cash equivalents at end of period	14	1,706	3,509	1,803
Cash and cash equivalents, net of overdrafts at end of period	14	(938)	2,867	380

Chief Executive Officer of Mechel PAO



Oleg V. Korzhov



March 11, 2021

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

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2020

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

1. Corporate information

(a) Information

Mechel PAO (“Mechel”, formerly – Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies. Igor V. Zyuzin with his family members is the ultimate controlling party. The registered office is located at Krasnoarmeyskaya St. 1, Moscow, 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the “Group”. Set forth below is a summary of the Group’s primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at December 31, 2020
Southern Kuzbass Coal Company (SKCC).....	Russia	Coal mining	January 1999	99.1%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	December 2001	93.7%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 2002	93.3%
Beloretsk Metallurgical Plant (BMP).....	Russia	Steel products	June 2002	91.4%
Urals Stampings Plant (USP).....	Russia	Steel products	April 2003	90.0%
Korshunov Mining Plant (KMP).....	Russia	Iron ore mining	October 2003	90.0%
Mechel Nemunas (MN)	Lithuania	Steel products	October 2003	100.0%
Mechel Energo	Russia	Power sales	February 2004	100.0%
Port Posiet	Russia	Transshipment	February 2004	97.8%
Izhstal	Russia	Steel products	May 2004	90.0%
Port Kambarka	Russia	Transshipment	April 2005	90.4%
Mechel Service.....	Russia	Trading	May 2005	100.0%
Mechel Coke	Russia	Coke production	June 2006	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	October 2006	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 2007	98.3%
Kuzbass Power Sales Company (KPSC).....	Russia	Electricity distribution	June 2007	72.1%
Bratsk Ferroalloy Plant (BFP).....	Russia	Ferrosilicon production	August 2007	100.0%
Yakutugol.....	Russia	Coal mining	October 2007	100.0%
Port Temryuk	Russia	Transshipment	March 2008	100.0%
Mechel Carbon AG	Switzerland	Trading	April 2008	100.0%
HBL Holding GmbH (HBL)	Germany	Trading	September 2008	100.0%
Mechel Service Stahlhandel Austria GmbH and its subsidiaries	Austria	Trading	September 2012	100.0%

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

(b) Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity (generation and distribution) and heat power generation), and conducts operations in Russia, the CIS countries, Europe and Asia Pacific. The Group sells its products within Russia and foreign markets. As of December 31, 2020, there were no changes in the composition of the Group except for disposal of entities described in Note 25. The Group operates in highly competitive industries; any local or global downturn in the industry may have an adverse effect on the Group’s results of operations and financial condition. While the Group has intention to continue to rely on operating cash flow, it expects to attract long-term loans and borrowings to finance major investment projects, focus on refinancing and restructuring of the loan portfolio and other financing sources for its capital needs. As discussed in Notes 4 and 5, management believes that the Group will secure adequate financing.

(c) Authorisation for issuance

These consolidated financial statements as of December 31, 2020 and for the year then ended were authorised for issuance on March 11, 2021.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

2. Basis of preparation of the consolidated financial statements

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for specific financial assets and liabilities that have been measured at fair value.

Russian associates and subsidiaries of the Group maintain their books and records in Russian rubles and prepare accounting reports in accordance with the accounting principles and practices mandated by Russian Accounting Standards (RAS). Foreign subsidiaries and associates maintain their books and records in different foreign functional currencies and prepare accounting reports in accordance with generally accepted accounting principles (GAAP) in various jurisdictions. The financial statements and accounting reports for the Group and its subsidiaries and associates for the purposes of preparation of the consolidated financial statements in accordance with IFRS have been translated and adjusted on the basis of the respective standalone RAS or other GAAP financial statements.

The accompanying consolidated financial statements differ from the financial statements issued for the RAS and other GAAP purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) purchase accounting; (2) recognition of interest expense and certain operating expenses; (3) valuation and depreciation of property, plant and equipment and mineral licenses; (4) defined benefit plans and other long-term benefits; (5) foreign currency translation; (6) deferred income taxes; (7) accounting for tax penalties, uncertainties and contingencies; (8) revenue recognition; (9) valuation allowances for unrecoverable assets; (10) accounting for financial instruments; (11) leases, (12) recording investments at fair value and (13) results of discontinued operations.

The consolidated financial statements of the Group comply with the Russian Federal Law No. 208 *On Consolidated Financial Statements* (Law “208-FZ”), which was adopted on July 27, 2010. The Law 208-FZ provides the legal basis for certain entities to prepare the financial statements in accordance with IFRS as issued by the IASB and subsequently endorsed for use in the Russian Federation. As of December 31, 2020, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia. The consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries for the year ended December 31, 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit (loss) and other comprehensive income. Any investment retained is recognised at fair value.

3. Summary of significant accounting policies

(a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments* ("IFRS 9"), is measured at fair value with the changes in fair value recognised in the consolidated statement of profit (loss) and other comprehensive income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit (loss) and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(b) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

The consolidated statement of profit (loss) and other comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI movements. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit (loss) and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value, and then recognises the loss within 'Share of profit (loss) of associates' in the consolidated statement of profit (loss) and other comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit (loss) and other comprehensive income.

(c) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Revenue from contracts with customers

Revenue from contracts with customers is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Revenue from contracts with customers is inflows from sales of goods that constitute ongoing major operations of the Group and is reported as such in the consolidated statement of profit (loss) and other comprehensive income. Inflows from incidental and peripheral operations, net of related costs, are considered gains and are included in other operating income and other income in the consolidated statement of profit (loss) and other comprehensive income.

The following criteria are also applicable to other specific revenue transactions from contracts with customers:

Sales of goods and rendering services

Revenue from the sale of goods and rendering services is recognised when (or as) the Group satisfies a performance obligation by transferring promised goods and services to a customer. An asset is transferred when (or as) the customer obtains control of the asset. The Group is engaged into contracts for sales of goods which include transportation and freight services. In these contracts the Group accounts for two separate performance obligations: the obligation to provide goods to the customer and the obligation to arrange the delivery (transportation, freight) of goods to the customer. Revenue is recognised at a point of time when control over the goods passes to the customer (at the loading port, place or after delivery to the first carrier). Revenue related to freight and transportation component is recognised over time as the service is rendered. Revenue from the sale of goods and rendering services is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, net of returns and allowances, trade discounts, associated sales taxes (VAT) and export duties.

Certain contracts are provisionally priced so that price is not settled until the final price based on the market price for the relevant period is determined. Revenue from these transactions is initially recognised based on related coal market indices. An adjustment to the final price on provisionally priced contracts is recorded in revenue.

Sales of power

In the Power segment (Note 26), revenue is recognised based on unit of power measure (kilowatts) delivered to customers, since the Group transfers control for a service or good over period and, therefore, satisfies a performance obligation over time. The billings are usually done on a monthly basis, several days after each month end.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer.

Some contracts with customers provide a right of return, trade discounts or volume rebates. IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

Volume rebates

The Group applies the most likely amount method to estimate the variable consideration in the contract using the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price).

Significant financing component

The Group decided to use the practical expedient provided in IFRS 15, which allows not to adjust the promised amount of consideration for the effects of a significant financing component in the contracts where the Group expects, at contract inception, that the period between the Group's transfer of a promised good or service to a customer and the payment will be one year or less.

Warranty obligations

The Group provides warranties to its customers under the Russian Federation Law requirements. These warranties represent assurance type warranties and do not require providing any additional service to the Group's customers. This type of warranties is accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37").

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 3 (n).

Contract assets

Contract assets relate to revenue earned from performance that does not create an asset with an alternative use and there is an enforceable right to receive payment for performance completed to date of performance. As such, the balances of this account vary and depend on the number of orders in progress under these contracts at the end of the year.

Contract liabilities

Contract liabilities are presented by short-term advances received from customers and recognised as advances received in the consolidation statement of financial position. A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

The disclosure of significant accounting judgements relating to revenue from contracts with customers is provided in Note 3 (v).

(f) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

Uncertain tax positions

The Group's policy is to comply fully with the applicable tax regulations in the jurisdictions in which its operations are subject to income taxes. The Group's estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by the Group's subsidiaries will be subject to a review or audit by the relevant tax authorities. The Group and the relevant tax authorities may have different interpretations of how regulations should be applied to actual transactions. Such uncertain tax positions are accounted for in accordance with IAS 12 *Income Taxes* ("IAS 12") and IAS 37. The Group applies single most likely outcome method of uncertain tax positions estimation.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised in correlation to the underlying transaction either in OCI or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

MECHEL PAO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended December 31, 2020

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

(g) Foreign currencies

The Group's consolidated financial statements are presented in Russian rubles to comply with the Law 208-FZ. Russian ruble is also the parent company's functional currency.

For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies of the main Russian and European subsidiaries of the Group are the Russian ruble and euro, respectively. The U.S. dollar is the functional currency of other main international operations of the Group. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency exchange rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates as of the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The following table presents the exchange rates for the functional and operating currencies at various subsidiaries, other than the presentation currency:

Currency	Exchange rates* at		Average exchange rates* for the year ended		
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2018
U.S. dollar	73.88	61.91	72.15	64.74	62.71
Euro.....	90.68	69.34	82.45	72.50	73.95

(*) Exchange rates shown in Russian rubles for one currency unit.

The majority of the balances and operations not already denominated in the presentation currency were denominated in the U.S. dollar and euro. The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of the Russian Federation ("CBR") and are generally considered to be a reasonable approximation of market rates.

(ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into the Russian rubles at the rate of exchange prevailing at the reporting date and their statements of profit (loss) and other comprehensive income are translated at the average exchange rate for the period. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate as of the reporting date.

(h) Non-current assets held for sale and discontinued operations

The Group classifies non-current assets (or disposal group) as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit (loss) and other comprehensive income.

Additional disclosures are provided in Note 25. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

(i) Mineral licenses

The Group's mining segment production activities are located within Russia. The Group's mineral reserves and deposits are situated on the land belonging to government and regional authorities. Mining minerals requires a subsoil license from the state authorities with respect to identified mineral deposits. The Group obtains licenses from such authorities and pays certain taxes to explore and produce from these deposits. These licenses expire up to 2038, with the most significant licenses expiring between 2024 and 2033, and management believes that they may be extended at the initiative of the Group without substantial cost, based on previous experience. Management intends to extend such licenses for deposits expected to remain productive subsequent to their license expiry dates.

Mineral licenses acquired separately are measured on initial recognition at cost. The cost of mineral licenses acquired in a business combination is their fair value at the date of acquisition. Mineral licenses are amortised under a unit of production basis over proved and probable reserves of the relevant area.

In order to calculate proved and probable reserves, estimates and assumptions are used about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. There are numerous uncertainties inherent in estimating proved and probable reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

The Group established a policy according to which internal mining engineers review proved and probable reserves annually. This policy does not change the Group's approach to the measurement of proved and probable reserves as of their acquisition dates as part of business combinations that involve independent mining engineers. The Group's proved and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

The carrying values of the mineral licenses were reduced proportionate to the depletion of the respective mineral reserves at each deposit related to mining and production of reserves adjusted for the reserves re-measurement and purchase accounting effects. Reduction in carrying values of the mineral licenses is included in the amortisation charge proportional to the depletion for the period within the cost of sales in the consolidated statement of profit (loss) and other comprehensive income. No residual value is assumed in the mineral license valuation.

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(j) Property, plant and equipment

Property, plant and equipment and construction in progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation provision, and, for qualifying assets (where relevant), borrowing costs and other costs incurred in connection with the borrowings. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Where a separately depreciated asset, or part of an asset, is replaced, the expenditure is capitalised. Where part of the asset was not separately considered as a component and therefore not depreciated separately, the replacement value adjusted for prices inflation is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. All other repair and maintenance costs are recognised in the consolidated statement of profit (loss) and other comprehensive income as incurred.

The present value of the expected cost for the rehabilitation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Inventories planned to be used for construction and spare parts with useful lives over one year are recorded within property, plant and equipment.

Mining assets and processing plant and equipment

Mining assets and processing plant and equipment are those assets, including construction in progress, which are intended to be used only for the needs of a certain mine or field, and upon full extraction exhausting of the reserves of such mine or the field, these assets cannot be further used for any other purpose without a capital reconstruction.

Items of production mines are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

Costs of developing new underground mines are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. Additionally, interest expense subject to allocation to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of identified proved and probable reserves. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Group concludes that a future economic benefit is more likely than not to be realized. The Group had no exploration and evaluation assets as of December 31, 2020.

As part of its surface mining operations, the Group incurs stripping costs both during the development phase and production phase of its operations. Stripping costs incurred in the development phase of a mine, before the production phase commences, are capitalized as part of cost of constructing the mine. In general case, the capitalization of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. Stripping costs undertaken during the production phase of mine are charged to profit and loss as cost of sales as incurred.

In some cases, the further development of a mine may require stripping operations, equivalent by scale to those that were incurred in the development phase of a mine. In such cases, production stripping costs are capitalized similarly to the capitalization of costs during the development phase of a mine.

Stripping costs incurred in the production phase are capitalized, if all of the following criteria according to IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* are satisfied:

- (a) It is probable that the future economic benefit associated with the stripping activity will flow to the entity;
- (b) The entity can identify the component of the ore body for which access has been improved;
- (c) The costs relating to the stripping activity associated with that component can be measured reliably.

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When mining assets and processing plant and equipment are placed in production, the applicable capitalized costs, including mine development costs, are depleted using the unit-of-production method at the ratio of tonnes of mineral mined or processed to the estimated proved and probable mineral reserves that are expected to be mined during the estimated lives of the mines. Capitalized production stripping costs are also depleted using the unit-of-production method on a basis consistent with the mine production and reserves to which they relate. The unit-of-production method is used for the underground mine development structure costs as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

A decision to abandon, reduce or expand activity on a specific mine is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral licenses, and the likelihood that the Group will continue exploration on the mine. Based on the results at the conclusion of each phase of an exploration program, properties that are not economically feasible for production are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the companies owning such mineral rights.

Other property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocated material and manufacturing direct overhead costs. When construction activities are performed over an extended period, borrowing costs incurred in connection with the borrowing of funds are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

Property, plant and equipment other than mining assets and processing plant and equipment is depreciated using the straight-line method, apart from railway of the Elga coal deposit which is depreciated using the units of production method as discussed in (u) Significant accounting judgements, estimates and assumptions. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the consolidated statement of profit (loss) and other comprehensive income.

The following useful lives are used as a basis for calculating depreciation:

Category of asset	Useful economic lives estimates, years
Buildings and constructions	5-85
Operating machinery and equipment.....	2-30
Transportation vehicles	2-25
Other equipment.....	2-15

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(k) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Category of asset	Years
Buildings and constructions	2-120
Operating machinery and equipment.....	3-20
Transportation vehicles	2-22

The right-of-use assets related to land are depreciated using the straight-line method based on the period of land use (from 2 to 70 years).

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 3 (q).

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment, office and storage facilities (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Group also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Sale and leaseback transactions

The Group sells and leases back operating machinery and transportation vehicles. The Group keeps the transferred assets subject to the sale and leaseback transaction on the balance sheet and accounts for amounts received as a financial liability due to intention to exercise repurchase option for the underlying assets set by contracts.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Borrowing costs consist of interest including exchange differences arising from foreign currency borrowings and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

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According to IAS 23 *Borrowing Costs* (“IAS 23”), borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Foreign exchange differences on borrowings directly attributable to the acquisition, construction or production of a qualifying asset are considered by the Group to be eligible for capitalization in the amount of difference between actual amount of interest costs and potential amount of interest costs calculated using a weighted average of rates applicable to ruble-nominated borrowings of the Group during the period. All other borrowing costs are recognised in the consolidated statement of profit (loss) and other comprehensive income in the period in which they are incurred.

(m) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with determinable useful lives are amortised using the straight-line method over their estimated period of benefit, ranging from two to twenty five years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(n) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 (Note 3 (e)).

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost;
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost

This category of financial assets is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

This category generally applies to trade and other receivables excluding trade receivables on provisionally priced contracts.

Financial assets at fair value through OCI (debt instruments)

The Group measures financial assets at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit (loss) and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition of financial assets represented by debt instruments at fair value through OCI the cumulative fair value change recognised in OCI is recycled to profit or loss in opposite to equity instruments at fair value through OCI with the cumulative fair value change remained in OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

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Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Trade receivables on provisionally priced contracts are measured at fair value through profit or loss. Trade receivables on provisionally priced contracts are remeasured at each reporting date based on the market price for the relevant period. These trade receivables are initially measured at the amount which the Group expects to be entitled to, being the estimate of the price expected to be received at the end of the quotational period. The quotational periods can range between one and three months post shipment and final payment is due within 30 days from the end of the quotational period. Adjustments to the final price on provisionally priced contracts are recorded within revenue.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Allowance for expected credit losses of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Financial assets – Note 10.
- Trade and other receivables – Note 12.

Allowance for expected credit losses is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime expected credit losses).

For purposes of measuring probability of default, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- The customer is more than 90 days past due on its contractual payments;
- International rating agencies have classified the customer in the default rating class;
- The customer meets the unlikeliness-to-pay criteria listed below:
 - The customer is insolvent;
 - The customer is in breach of financial covenants; and
 - It is becoming likely that the customer will enter bankruptcy.

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For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date.

To estimate the allowance for expected credit losses for trade and other receivables the Group applied 2-dimension model. For individual significant balances with specific characteristics the individual allowance rates were applied based on the historical experience of relationships with those counterparties, individual analysis of their current financial position and forward-looking factors specific to the debtors and the economic environment. For all other balances which are similar by the nature the standard simplified approach was applied with the use of a provision matrix based on the Group's historical credit loss experience adjusted for forward-looking information. The provision rates are based on days past due for groupings of various homogeneous counterparties. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 10.3. The Group does not hold collateral as security.

Allowance for expected credit losses on cash and cash equivalents is calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit (loss) and other comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit (loss) and other comprehensive income. This category generally applies to loans and borrowings (Note 10).

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Put options written on non-controlling interests

The Group initially measures a financial liability at the present value of the redemption amount in the parent's consolidated financial statements for written puts on non-controlling interests, therefore, when the Group grants non-controlling interests a put option to sell part or all of their interests in a subsidiary during a certain period, on the date of grant, the non-controlling interests are classified as a financial liability. The Group remeasures the financial liability at the end of each reporting period based on the estimated present value of the consideration to be transferred upon the exercise of the put option. The respective finance cost is recognised in the consolidated statement of profit (loss) and other comprehensive income within finance costs.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit (loss) and other comprehensive income.

(iii) Interest income

For all financial instruments measured at amortised cost interest income is recorded using the EIR. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of profit (loss) and other comprehensive income.

(o) Derivative financial instruments

The Group uses derivative financial instruments, such as cross currency swap and cross currency option. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the years ended December 31, 2020, 2019 and 2018, the Group did not have any derivatives designated as hedging instruments.

(p) Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

The cost of inventories is determined under the weighted average cost method, and includes all costs in bringing the inventories to its present location and condition. The elements of costs include direct material, labor and allocable material and manufacturing overhead.

Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and allocation of fixed and variable production overheads. Raw materials are valued at a purchase cost inclusive of freight and other shipping costs.

Coal and iron ore inventories costs include direct labor, supplies, depreciation of equipment and mining assets, and amortisation of licenses to use mineral reserves, mine operating overheads and other related costs. Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

(q) Impairment of non-current assets

Further disclosures relating to impairment of non-current assets are also provided in the following notes:

- Intangible assets – Note 16
- Property, plant and equipment – Note 15.
- Impairment of goodwill and other non-current assets – Note 17.

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The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group's CGUs represent single entities or group of entities with one component of business in each case.

In assessing value in use, the Group uses assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, production and sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Discount rates used in the impairment test for goodwill and non-current assets are estimated in nominal terms on the weighted average cost of capital basis. The growth rates are based on the Group's growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs to sell, the Group uses recent market transactions data and best information available to reflect the amount that it could obtain from the disposal of the asset in an arm's length transaction (e.g., offers obtained from potential buyers).

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For CGUs involved in mining activity future cash flows include estimates of recoverable minerals that will be obtained from proved and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by the Group's engineers.

Impairment losses of continuing operations are recognised in the consolidated statement of profit (loss) and other comprehensive income.

For impaired assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. Previously impaired assets (excluding goodwill) are reviewed for possible reversal of previous impairment at each reporting date. Impairment reversal cannot exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognised for the asset or cash generating units (CGUs). Such reversal is recognised in the consolidated statement of profit (loss) and other comprehensive income.

Goodwill is tested for impairment annually as of December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(r) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

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(s) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, including legal or tax proceedings' obligations, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the consolidated statement of profit (loss) and other comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Rehabilitation provision

The Group has numerous site rehabilitation obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The main part of these obligations is not expected to be paid in a foreseeable future, and will be funded from the general Group's resources when respective works will be performed. The Group's rehabilitation provisions primarily relate to its steel and mining production facilities with related landfills and dump areas and its mines.

Mine rehabilitation costs will be incurred by the Group either while operating, or at the end of the operating life of the Group's facilities and mine properties. The Group assesses its mine rehabilitation provision at each reporting date. The Group recognises a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognising an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment* ("IAS 16").

Any reduction in the rehabilitation provision and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the consolidated statement of profit (loss) and other comprehensive income.

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the consolidated statement of profit (loss) and other comprehensive income as part of finance costs.

For closed sites, changes to estimated rehabilitation costs are recognised immediately in the consolidated statement of profit (loss) and other comprehensive income.

Environmental expenditures and liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognised when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

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

(t) Pensions and other post-employment benefits

Defined benefit pension and other post-retirement plans

The Group has a number of defined benefit pension plans and other long-term benefits that cover the majority of production employees.

Benefits under these plans are primarily based upon years of service and average earnings. The Group accounts for the cost of defined benefit plans and other long-term benefits using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of profit (loss) and other comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan.

The Group's obligation in respect of defined retirement benefit plans and other long-term benefits is calculated separately for each defined benefit plan and other long-term benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield at the yearend on highly rated long-term bonds.

For defined benefit pension plans, actuarial gains and losses arising from changes in actuarial assumptions are recognised directly in other comprehensive income. For other long-term benefits, actuarial gains and losses arising from changes in actuarial assumptions are recognised in profit or loss.

For unfunded plans, the Group recognises a pension liability, which is equal to the projected benefit obligation. For funded plans, the Group offsets the fair value of the plan assets with the projected benefit obligations and recognises the net amount of pension liability. The market value of plan assets is measured at each reporting date.

State pension fund

The Group's Russian companies are legally obligated to make defined contributions to the Russian Pension Fund at the rate of 10% from employee's annual income over RUB 1.3 million and at the rate of 22% from employee's annual income not exceeding RUB 1.3 million (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Pension Fund relating to defined contribution plans are charged to income in the year, to which they relate and are recognised within social security costs (Note 24.2).

(u) Treasury shares

Reacquired own equity instruments (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the additional paid-in capital.

(v) Significant accounting estimates, assumptions and judgments

The preparation of the 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 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.

The COVID-19 pandemic has widespread global impacts on economies, markets and businesses, giving rise to significant volatility and considerable uncertainty. As the extent and duration of the impacts from COVID-19 remain unclear, the Group's estimates and assumptions used in preparing the consolidated financial statements reflect the potential implications of COVID-19 on the Group's operations and financial condition under various possible scenarios. Actual results could differ from those estimates. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below or in the related accounting policy note. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group.

In particular, the Group has identified a number of areas where significant estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below.

Critical accounting estimates

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits and the existence of taxable temporary differences (Note 19). Various factors are considered to assess the probability of the future utilization of deferred tax assets for individual subsidiaries and for the consolidated group of taxpayers, including past operating results, operational plans for not longer than five years as this term is considered reliable and accurate for forecast, same assumptions for operational plans as used for determination of the expected future cash flows from the cash generating units and which have been reassessed and adjusted when necessary due to the impacts arising from the recent COVID-19 pandemic, financial plans based on historical data and expectation built on the debt portfolio, terms of the expiration of tax losses carried forward depending on respective tax legislation, and tax planning strategies based on changes in tax regulation for tax losses offsetting for 2018-2021. The key assumptions used in the future projections of taxable profits include sales volumes, selling prices (coal, steel products) and operating costs. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the Group's financial position, results of operations and cash flows may be affected. In the event that the assessment of future utilization of deferred tax assets must be changed, this effect is recognised in the consolidated statement of profit (loss) and other comprehensive income.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the likelihood that the estimated taxable profit and taxable temporary differences will be sufficient to recover the asset in whole or in part.

Impairment of property, plant and equipment and other non-current assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, changes in cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. The key assumptions used in the future cash flow projections include sales volumes, selling prices (coal, steel products) and operating costs. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate and growth rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (Note 17).

Increased economic uncertainty due to the recent developments of the COVID-19 pandemic has become a trigger event that the Group's assets may be impaired. The Group has conducted the impairment testing of property, plant and equipment and other non-current assets (Note 17). Significant assumptions that include estimates regarding the discount rates, growth rates, expected changes in selling prices, sales volumes and operating costs, have been reassessed and adjusted when necessary due to the impacts arising from the recent COVID-19 pandemic.

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Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit including assumptions related to sales and extraction volumes, selling prices and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These assumptions have been reassessed and adjusted when necessary due to the impacts arising from the recent COVID-19 pandemic. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in Note 17.

Other accounting estimates and assumptions

Uncertain income tax positions

The Group determines whether to consider each uncertain income tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments, and where uncertainty exists, the Group records tax liabilities based on its best estimate of the probable outflow of resources embodying economic benefits, which are required to settle these liabilities.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Mineral reserves

Mineral reserves and the associated mine plans are a material factor in the Group's computation of amortisation charge proportional to the depletion. Estimation of reserves involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgment and development of assumptions. Mine plans can be updated which can have a material impact on the amortisation charge proportional to the depletion for the period. More details are provided in Note 3(i).

Provisions

The outcomes of various legal proceedings, disputes and claims to the Group are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable (Note 22).

Pensions and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation and other long-term benefit plans are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The discount rate is the most sensitive to a change assumption. In determining the appropriate discount rate, management considers the yield curve of the Russian government bonds together with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. More details are provided in Note 21.

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Rehabilitation provisions

The Group reviews rehabilitation provisions at each reporting date and adjusts them to reflect the current best estimate. Rehabilitation provisions are recognised in the period in which they arise and are stated at the best estimate of the present value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. The Group applies a suitable discount rate in order to calculate the present value of the estimated future costs, depending on their timing. The terms of rehabilitation works are linked to the termination of extraction phase, use of assets or regulatory requirements and vary significantly for different assets. These estimates, including the methodologies used, may have a material impact on the amount of rehabilitation provision. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognising an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 (Note 15).

Impairment of financial assets

The Group makes allowances for expected credit losses resulting from the expected inability of customers to make required payments. When evaluating the adequacy of an allowance for expected credit losses management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, debtor creditworthiness and changes in payment terms. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future (Note 12).

The COVID-19 outbreak led to a significant increase in the credit risks therefore the Group has reevaluated estimates and assumptions related to the adequacy of an allowance for expected credit losses (ECL) for accounts receivable and other financial assets and adjusted forecast of macroeconomic indicators in the ECL estimation models.

Determining net realisable value of inventories

The Group makes write-downs for obsolete and slow-moving raw materials and spare parts. In addition, finished goods of the Group are carried at net realisable value (Note 11). Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Provision for legal claims

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

Interest rate implicit in the lease

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Railway depreciation method

In 2015, the Group commenced to depreciate the railway of the Elga coal deposit using units of production method. In applying the units of production method, depreciation is normally calculated based on produced and delivered tonnes in the period as a percentage of total expected tonnes to be produced and delivered in current and future periods over the Elga coal deposit life cycle. The Group's analysis has shown that the consumption of the economic benefits of the asset is linked to production and delivery of coal. The Group assesses the total or ultimate railway capacity in tonnes at least at each financial year end and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8").

Principal vs agent arrangements

Revenue is recognised when a customer obtains control over the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The Group is engaged into contracts which include transportation and freight services. Under certain agreements, the Group is responsible for providing shipping services after the date at which control over the goods passes to the customer at the loading port or place. Freight and transportation services are required to be accounted for as separate performance obligations with revenue recognised over time as the service is rendered. The Group has concluded that it acts as a principal when it is primarily responsible for fulfilling the promise to provide transportation services and as an agent when it is not primarily responsible for fulfilling the promise to provide transportation services. As a result, for operations when the Group acts as a principal the amounts of transportation costs and freight services, which are included in the transaction price and incurred by the Group in fulfilling its performance obligations shall be recorded as revenue and recognised over time as the obligation is fulfilled. For agent services related to transportation of goods sold, when cost of transportation is included into the goods price, the revenue and selling expenses are recognised on a net basis.

Leases

The likelihood of extension and termination options being exercised, the separation and estimation of non-lease components of payments, the identification and valuation of in-substance fixed payments, the determination of the incremental borrowing rate relevant in calculating lease liabilities are assessed for recognition of right-of-use assets and lease liabilities.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The renewable lease contracts that specify an initial period, and renew indefinitely at the end of the initial period unless terminated by either of the parties to the contract are considered enforceable beyond the date on which the contract can be terminated taking into account the broader economics of the contract, and not only contractual termination payments. Lease terms are determined based on the contract terms, production need to lease the specialised asset and terms of rehabilitation obligations.

Taxation

The Group is subject to taxation to the largest extent in Russia, and secondarily in other jurisdictions. The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Russian tax authorities take assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of the taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

In the event that a taxpayer submits a revised tax declaration for a period of more than three years in which the stated amount of tax is less than the amount previously declared, tax audit of a taxpayer may be performed, but only with the respect to the changes in the tax declaration.

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In other tax jurisdictions where the Group conducts operations or holds shares, taxes are generally charged on their worldwide income. In the most jurisdictions agreements to avoid double taxation were signed with other jurisdictions; however, the risk of additional taxation exists, especially in respect of certain domiciles where some of the Group entities are located.

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market level of prices. The list of “controlled” transactions includes transactions performed with related parties, including transactions performed with independent dealers, and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if taxpayers satisfy certain criteria and the amount of all transaction with related party exceeds RUB 1,000 million since 2019.

In order to support the level of prices applied for the “controlled” transactions the Group should provide evidence that prices of “controlled” transactions are based on market prices and to prepare the reports for submission to the Russian tax authorities. Otherwise, the Russian tax authorities have the right to challenge the prices determined by the Group for such transactions and to charge additional taxes, penalties and fines. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorised body in due course. Special transfer pricing rules apply to transactions with securities and derivatives.

The Group believes that it uses the market prices in “controlled” transactions and does not expect any claims of tax authorities related to the prices used in such transactions. However, due to the uncertainty and limited practice of the Russian legislation in the area of transfer pricing relevant tax claims may be raised and the respective effect is currently impossible to estimate.

In addition, in 2014, the legislation of the Russian Federation has been significantly revised in order to prevent the misuse of low-tax jurisdictions for tax avoidance in the Russian Federation. Changes in the legislation set out the rules for the taxation of income of a foreign organization recognised as a controlled foreign corporation. The foreign organization is recognised as a controlled foreign corporation, if it is not a tax resident of the Russian Federation and the share of the controlling Russian entities or individuals in the organization is more than 25% (in some cases, more than 10%). Starting from the calculation of the profits of controlled foreign corporation for 2017 and beyond, the amount of non-taxable income of 10 million Russian rubles is established. The Russian tax law also provides for certain conditions under which the income of controlled corporations qualifies as tax exempt. The taxable income of the controlling party is increased by the profits of the controlled foreign corporation earned in the financial year ended prior to the reporting year.

Environmental contingencies

In the course of the Group’s operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management does not believe that any pending environmental claims or proceedings will have a material adverse effect on the Group’s financial position and results of operations.

For other judgments, estimates and assumptions and details refer to:

- Mineral licenses (Note 3(i));
- Property, plant and equipment (Note 3(j));
- Deferred tax assets (Note 3(f));
- Non-current assets held for sale and discontinued operations (Note 3(h));
- Inventories (Note 3(p));
- Impairment of non-current assets (Note 3(q));
- Pensions and other post-employment benefits (Note 3(t));
- Provisions (Note 3(s));
- Fair value measurement (Note 3(d)).

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(w) Reclassifications and rounding

Certain reclassifications have been made to the prior periods' consolidated financial statements to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated statement of financial position, consolidated statement of profit (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.

Unless otherwise stated, comparative financial information for 2019 and 2018 reflect adjustments made in connection with the presentation of discontinued operation (sale of the Elga coal complex).

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

(x) New and amended standards and interpretations adopted by the Group

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amended standards became effective from January 1, 2020, but did not have any material impact on the consolidated financial statements of the Group:

- Amendments to IFRS 3 – *Definition of a Business* (issued on October 22, 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after January 1, 2020).
- Amendments to IAS 1 and IAS 8 – *Definition of Material* (issued on October 31, 2018 and effective for annual reporting periods beginning on or after January 1, 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest Rate Benchmark Reform* (issued on September 26, 2019 and effective for annual reporting periods beginning on or after January 1, 2020).

Standards issued but not effective

The standards and interpretations applicable to the Group that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are discussed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective. The Group expects no material impact on its consolidated financial statements from the following amendments and improvements applicable to the Group but they may impact future periods should the Group enter into new relevant transactions (e.g., business combinations):

- Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current* (issued on January 23, 2020 and effective for annual reporting periods beginning on or after January 1, 2023).
- 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 16 – *Property, Plant and Equipment: Proceeds before Intended Use* (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Amendments to IAS 37 – *Onerous Contracts – Costs of Fulfilling a Contract* (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Amendments to IFRS 3 – Reference to the Conceptual Framework (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 9 – Fees in the '10 per cent' test for derecognition of financial liabilities (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Amendments to IFRS 16 – *COVID-19 Related Rent Concessions* (issued on May 28, 2020 and effective for annual reporting periods beginning on or after June 1, 2020).
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform – Phase 2* (issued on August 27, 2020 and effective for annual reporting periods beginning on or after January 1, 2021).

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Over the past few years, global financial regulators developed a reform aimed at replacement of benchmark interbank offered rates (“IBOR”), such as LIBOR and EURIBOR, with new official benchmark rates known as alternative risk-free rates. This reform caused changes to the financial reporting requirements under IFRS. The IASB tackled the changes in two phases: phase 1 amended specific hedge accounting requirements where uncertainty could arise in the run-up to transition and phase 2 addressed potential financial reporting issues that may arise when IBORs are either reformed or replaced.

It was announced that LIBOR, one of the most widely used benchmarks, will be discontinued after December 2021, as banks will no longer be required to submit the quotes used to construct it.

The Group has a number of short-term and long-term borrowings with variable interest rates. Currently, the Group is assessing its floating rate debt maturing after 2021 and discussing with the banks the possible changes to the contract terms. The Group is in the process of evaluation of the effect of application of these amendments.

4. Going concern

In April 2020, as part of its debt restructuring, the Group sold its 51% share in Elgaugol OOO, ElgaDoroga OOO and Mecheltrans-Vostok OOO (collectively – “the Elga coal complex”) to a third party for a consideration of RUB 89 billion used for repayment of debt principal to VTB and Gazprombank in proportion to their shares in the Group’s debt portfolio. As a result of the Elga coal complex disposal other non-current financial liabilities of RUB 49,418 million under the put option of Gazprombank were derecognised. Additionally, the Group signed debt restructuring agreements with VTB and Gazprombank providing an extension of debt maturity by seven years until March 2027 with the option of further extension by three years more if the extension conditions are met. The agreements set the repayments schedule starting 2020.

However, the debt restructuring was not finalised with respect to the portion of the Group’s credit portfolio with the foreign banks and lenders, therefore, as of December 31, 2020, the Group was not in compliance with the payment schedules under certain credit facilities and a number of financial and non-financial covenants contained in the Group’s loan agreements as further described in Note 10.1. As of the date of approval of these consolidated financial statements, these breaches constitute an event of default and, as a result, the lenders may request accelerated repayment of a substantial portion of the Group’s debt including repayment requests on overdue principal and interest from foreign banks. As of the date of approval of these consolidated financial statements, the Group did not have sufficient own resources to enable it to comply with such repayment requests. The Group continues to negotiate with the creditors about debt settlement options and expects to agree on settlement terms in 2021. As of December 31, 2020, the Group’s debt payable on demand was RUB 310,522 million, including RUB 248,667 million of long-term debt classified as short-term debt due to contractual cross-default provisions and breaches of financial and non-financial covenants. As of December 31, 2020, the Group’s total liabilities exceeded total assets by RUB 230,671 million.

The COVID-19 pandemic has widespread global impact on economies, markets and businesses, giving rise to significant volatility and considerable uncertainty. Together with other factors, this has resulted in a sharp decrease in the oil price, stock market indices, coal and metals prices, as well as depreciation of the Russian ruble. The Group’s manufacturing and selling companies have remained open and operational during the pandemic. As of the date of approval of these consolidated financial statements, the Group has not experienced any substantial disruptions to production or sales owing to its diversified structure of assets comprising coal, energy and steel products. Nevertheless, consequences of the pandemic through drop of prices on world markets, deterioration of customers’ solvency and other manifestations had significant impact on decline of the Group’s operating profit.

The economic environment influenced by the global spread of the COVID-19 pandemic and current economic conditions in the major segments of the Group’s operations retain uncertainty about the level of demand for the Group’s products, the pricing of major products mined or manufactured by the Group, operating and financial results, the availability of free cash flow for repayment or ability to refinance and restructure liabilities.

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Management has concluded that the events and conditions, as well as the other 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. The management believes that the Group will achieve an agreement on restructuring with the foreign banks and lenders and secure adequate financing to continue in operational existence in the foreseeable future. The management's strategy includes enhancement of crude steel production, increase in sales of the major steel products, diversification of product range to quickly respond to market changes, and further development of the Group's mining assets providing additional volumes of high-grade coking coal both to the Russian consumers and to exports markets. The Group's operational plans include further optimisation of the costs structure and on-going control over the production costs and selling expenses. By the end of 2020, prices for construction steel products of the Group's steel segment increased significantly, the price of coal in China is showing positive dynamics. These signs of recovery will allow the Group to focus on planned strategy.

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. Accordingly, the consolidated financial 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.

5. Capital management

The equity capital of the Group was formed by injecting shares of its operating subsidiaries into Mechel PAO. This together with obtaining profits allowed the Group to raise debt to finance major investment projects as well as to acquire new companies. Although it has always been the Group's priority to create and grow the shareholders' value, during the past several years, the Group has become more focused on managing its debt, which has been the major source for expansion and growth.

Metals and mining industry is known for its capital intensive investment cycle requiring secure long-term financing. In 2012-2015, high price volatility on the coal seaborne market and metal market resulted in the decrease in the Group's operating profit and impairments of non-current assets. Devaluation of the national currency (Russian ruble) affected the amount of foreign exchange losses and increase in cost of financing on local and foreign debt markets. These factors became the major reason for the losses incurred by the Group in the past and resulted in significant negative equity.

Given current economic circumstances and the amount of debt, the Group's primary objective is to focus on resolving the debt issues through a long-term restructuring of the remaining non-restructured portion of loan portfolio and bringing down both cost of financing and actual interest payments as well as use of all available free cash flow for repayment of debt and fulfilment of payment schedules under the restructured facilities. The Group's long-term policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to ensure sustainable future development of the business. The Group's management constantly monitors profitability and leverage ratios. The Group's capital management is based on a number of covenants, of which 'Net Debt to Adjusted EBITDA' and 'Adjusted EBITDA to Net Interest Expense' are the main indicators the management uses for control (Note 10.1). The level of dividends is monitored by the Board of Directors of the Group.

In previous periods, as a consequence of a fall of the commodity markets, the Group violated several covenants and defaulted on major credit facilities of interest and debt payments. During 2020, the Group signed restructuring arrangements with the Russian state-controlled banks, however, as of December 31, 2020, the Group was not in compliance with a number of financial and non-financial covenants set by the loan agreements and repayment schedules under the facilities with the foreign banks. The Group is planning to achieve an agreement on restructuring with the foreign banks and lenders and secure adequate financing to continue in operational existence in the foreseeable future.

The main goal for the Group is to achieve long-term restructuring of the remaining non-restructured portion of loan portfolio, which will permit to restore working capital, improve efficiency of operations and provide ability to sustain full service of debt in accordance with newly agreed repayment schedules as well as use of all available free cash flow for repayment of debt.

The objectives, policies and processes for managing capital during the year ended December 31, 2020 and 2019 were not changed.

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6. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests:

Name	At December 31, 2020	At December 31, 2019
SKCC and subsidiaries*	0.9%	0.9%
Kuzbass Power Sales Company (KPSC)	27.9%	27.9%
Chelyabinsk Metallurgical Plant (CMP)**	6.3%	5.8%
Southern Urals Nickel Plant (SUNP)	15.9%	15.9%
Beloretsk Metallurgical Plant (BMP)	8.6%	8.6%
Korshunov Mining Plant (KMP)	10.0%	10.0%
Urals Stampings Plant (USP)**	10.0%	6.2%
Izhstal	10.0%	10.0%

* Hereinafter SKCC and subsidiaries are represented by Southern Kuzbass Coal Company (SKCC), Tomusinsky Open Pit Mine (TOPM), Tomusinsky Energoupravlenie.

** See Note 23.

The summarised financial information for these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statements of profit (loss) and other comprehensive income for 2020:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers.....	26,664	24,002	114,092	90	21,673	12,937	10,219	16,755
Cost of sales	(21,521)	(11,546)	(95,461)	(50)	(18,860)	(6,494)	(8,196)	(15,429)
Total selling, distribution and operating expenses, net.....	(16,303)	(11,255)	(12,485)	(187)	(2,123)	(4,360)	(1,240)	(1,803)
Total other income and (expense), net	(16,021)	251	(5,021)	443	278	1,417	1,837	(978)
(Loss) profit before tax.....	(27,181)	1,452	1,125	296	968	3,500	2,620	(1,455)
Income tax (expense) benefit....	938	(302)	(373)	(67)	(111)	(182)	81	(255)
(Loss) profit for the period ..	(26,243)	1,150	752	229	857	3,318	2,701	(1,710)
Total comprehensive (loss) income	(26,243)	1,150	752	229	857	3,318	2,701	(1,710)
Attributable to non- controlling interests	(212)	320	76	36	73	330	215	(173)
Dividends paid to non- controlling interests	—	—	—	—	—	—	—	—

Summarised statements of profit (loss) and other comprehensive income for 2019:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers.....	35,059	24,624	113,020	198	22,061	15,776	17,231	20,208
Cost of sales	(21,667)	(12,479)	(101,258)	(54)	(19,263)	(6,739)	(12,330)	(17,631)
Total selling, distribution and operating expenses, net.....	(7,264)	(11,531)	(11,406)	(218)	(1,749)	(4,439)	(1,157)	919
Total other income and (expense), net	(233)	209	4,173	235	41	1,831	1,633	(99)
Profit before tax.....	5,895	823	4,529	161	1,090	6,429	5,377	3,397
Income tax (expense) benefit....	(372)	(174)	(551)	(37)	(28)	(271)	(323)	97
Profit for the period	5,523	649	3,978	124	1,062	6,158	5,054	3,494
Total comprehensive income	5,523	649	3,978	124	1,062	6,158	5,054	3,494
Attributable to non- controlling interests	79	182	231	20	91	613	315	348
Dividends paid to non- controlling interests	—	—	—	—	—	—	—	—

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Summarised statements of profit (loss) and other comprehensive income for 2018:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers.....	32,251	24,084	124,372	88	25,899	9,989	16,549	21,173
Cost of sales	(18,123)	(12,077)	(101,829)	(47)	(24,095)	(6,222)	(13,131)	(19,392)
Total selling, distribution and operating expenses, net.....	(9,064)	(11,894)	(11,988)	(170)	(1,867)	(4,250)	(1,099)	(2,498)
Total other income and (expense), net	(4,514)	343	(5,114)	722	1,034	2,103	2,090	(1,097)
Profit (loss) before tax.....	550	456	5,441	593	971	1,620	4,409	(1,814)
Income tax (expense) benefit....	(1,707)	(94)	1,443	(115)	(34)	46	(109)	228
(Loss) profit for the period ..	(1,157)	362	6,884	478	937	1,666	4,300	(1,586)
Total comprehensive (loss) income	(1,157)	362	6,884	478	937	1,666	4,300	(1,586)
Attributable to non-controlling interests	12	101	345	76	83	166	269	(154)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—

Summarised statements of financial position as of December 31, 2020:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	75,693	4,582	66,066	2,259	14,659	14,658	12,549	4,674
Non-current assets	50,065	4,960	220,598	5,879	5,022	32,797	23,754	3,811
Current liabilities.....	(88,813)	(2,452)	(222,009)	(97)	(6,201)	(3,346)	(4,028)	(12,873)
Non-current liabilities	(68,469)	(153)	(27,780)	(659)	(416)	(995)	(185)	(1,663)
Total equity.....	31,524	(6,937)	(36,875)	(7,382)	(13,064)	(43,114)	(32,090)	6,051
Attributable to:								
Equity shareholders of Mechel PAO.....	31,585	(5,006)	(34,534)	(6,210)	(11,938)	(38,822)	(28,889)	5,452
Non-controlling interests	(61)	(1,931)	(2,341)	(1,172)	(1,126)	(4,292)	(3,201)	599

Summarised statements of financial position as of December 31, 2019:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	74,924	4,373	46,448	3,301	14,127	20,413	15,374	4,049
Non-current assets	61,772	4,316	170,004	4,556	3,651	23,484	19,942	4,405
Current liabilities.....	(135,625)	(2,727)	(177,585)	(93)	(5,308)	(3,001)	(5,504)	(10,153)
Non-current liabilities	(6,626)	(176)	(2,757)	(610)	(261)	(1,098)	(422)	(2,634)
Total equity.....	5,555	(5,786)	(36,110)	(7,154)	(12,209)	(39,798)	(29,390)	4,333
Attributable to:								
Equity shareholders of Mechel PAO.....	5,828	(4,176)	(34,021)	(6,019)	(11,156)	(35,836)	(27,565)	3,908
Non-controlling interests	(273)	(1,610)	(2,089)	(1,135)	(1,053)	(3,962)	(1,825)	425

Summarised cash flow information for the year ended December 31, 2020:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating.....	8,718	1,465	(1,446)	(183)	1,441	6,647	3,538	1,531
Investing.....	8,118	(749)	(30,413)	217	(1,407)	(6,409)	(3,497)	(72)
Financing.....	(16,903)	(696)	31,413	(34)	(344)	(238)	(235)	(1,487)
Increase (decrease) in cash and cash equivalents, net...	(67)	20	(446)	—	(310)	—	(194)	(28)

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Summarised cash flow information for the year ended December 31, 2019:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating.....	12,043	243	10,898	(146)	(2,482)	2,867	1,375	2,839
Investing.....	(950)	(58)	(3,522)	163	2,685	(2,627)	(912)	(72)
Financing.....	(10,945)	(245)	(7,108)	(17)	505	(240)	(199)	(2,741)
Increase (decrease) in cash and cash equivalents, net...	148	(60)	268	–	708	–	264	26

Summarised cash flow information for the year ended December 31, 2018:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating.....	13,152	193	13,015	(264)	(1,891)	1,325	3,950	1,647
Investing.....	547	(97)	(76,283)	264	1,870	(1,003)	(1,163)	(89)
Financing.....	(13,651)	(99)	63,200	–	(169)	(322)	(2,829)	(1,604)
Increase (decrease) in cash and cash equivalents, net...	48	(3)	(68)	–	(190)	–	(42)	(46)

7. Investments in associates

Investments in associates comprised of:

Investee	Percent of shares held at		Investment carrying value at	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
TPTU (Mining segment)	40%	40%	219	208
TRMZ (Mining segment)	25%	25%	122	113
Total investments in associates.....			341	321

TPTU (Tomusinskiy Transportation Management Center) shares are owned by SKCC. The core business is provision of transportation services. TRMZ (Tomusinskiy Auto Repair Shop) shares are owned by SKCC. TRMZ provides repair services.

The following table shows movements in the investments in associates:

	TPTU (Mining segment)	TRMZ (Mining segment)	Total
December 31, 2017.....	184	99	283
Share of profit.....	5	5	10
December 31, 2018.....	189	104	293
Share of profit.....	19	9	28
December 31, 2019.....	208	113	321
Share of profit.....	11	9	20
December 31, 2020.....	219	122	341

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8. Related party disclosures

Note 1 provides information about the Group's structure, including details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with the related parties in 2020, 2019 and 2018.

	2020			2019			2018		
	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)
Associates	104	62	–	110	98	–	121	103	(33)
Controlling shareholders and entities under control of the Group's Controlling shareholders	1,451	336	142	904	184	138	280	52	(9)
Total	1,555	398	142	1,014	282	138	401	155	(42)

As of December 31, 2020 and 2019, the Group had the following balances in settlement with related parties:

	December 31, 2020			December 31, 2019		
	Financial assets from and advances given to	Financial liabilities to	Total outstanding, net	Financial assets from and advances given to	Financial liabilities to	Total outstanding, net
Associates	7	(20)	(13)	7	(6)	1
Controlling shareholders and entities under control of the Group's Controlling shareholders.....	140	(1,565)	(1,425)	100	(963)	(863)
Total	147	(1,585)	(1,438)	107	(969)	(862)

(a) Controlling shareholders and entities under control of the Group's Controlling shareholders

As of December 31, 2020 and 2019, the amounts of non-current financial assets fully covered by the allowance for expected credit losses included amounts receivable of RUB 24,391 million and RUB 24,391 million, respectively, assigned to the Group's related party entitled to collect amounts due from third party metallurgical plants, with further repayment to the Group. In January 2020, the Group extended the terms of repayment through 2027.

As of December 31, 2020 and 2019, the amounts of financial liabilities included amounts the trade and other payables of RUB 1,088 million and RUB 456 million, respectively, and amounts of the current lease liabilities of RUB 76 million and RUB 94 million, respectively, and non-current lease liabilities of RUB 421 million and RUB 419 million, respectively.

Mechel PAO purchased 6,419,753 of its ordinary shares from the Controlling shareholders and entities under control of the Group's Controlling shareholders for RUB 517 million as a result of the buyback of the shares on September 29, 2020 (Note 23).

The outstanding cash balance in Coalmetbank, an entity under control of the Group's Controlling shareholders, was RUB 382 million and RUB 1,509 million as of December 31, 2020 and December 31, 2019, respectively.

In 2020 and 2019, the Group purchased energy and electricity from its related party in the amount of RUB 1,265 million and RUB 692 million, respectively.

(b) Compensation to key management personnel

The total compensation to key management personnel was included in general and administrative expenses in the consolidated statement of profit (loss) and other comprehensive income and consisted of the short-term employee benefits in the amount of RUB 602 million, RUB 592 million and RUB 561 million in the year ended December 31, 2020, 2019 and 2018, respectively. There are no share-based payments to key management personnel. The Group's directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

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9. Fair value measurement

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

		December 31, 2020		December 31, 2019	
	Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost					
Floating rate loans and borrowings	2	308,657	284,427	370,312	357,276
Bonds	1	2,473	2,496	6,483	6,534
Fixed rate loans and borrowings.....	2	5,907	5,734	11,727	11,169
Other non-current financial liabilities (Note 10.5)	2	1,901	1,919	48,303	46,200
Total		318,938	294,576	436,825	421,179

The fair value of loans and borrowings was calculated based on the present value of future principal and interest cash flows, discounted at the Group's interest rates adjusted for risk premium at the reporting dates (Level 2).

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

As of December 31, 2020 and 2019, trade receivables of RUB 1,115 million and RUB 459 million arising from provisionally priced contracts were measured at fair value through profit or loss upon recognition (Level 2). The adjustments to the final price on provisionally priced contracts measured at fair value resulted in a net loss of RUB 420 million, net loss of RUB 815 million and net gain of RUB 29 million are recorded within revenue for the years ended December 31, 2020, 2019 and 2018, respectively.

10. Financial assets and financial liabilities

10.1 Financial liabilities: loans and borrowings

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

	December 31, 2020		December 31, 2019	
	Interest rate, %	Amount of outstanding debt	Interest rate, %	Amount of outstanding debt
Short-term borrowings and current portion of long-term debt				
In Russian rubles				
Banks and financial institutions.....	5.8	2,644	7.8	1,347
Weighted average interest rate for the period	5.8		7.8	
In euro				
Banks and financial institutions.....	1.7-1.8	171	1.7-1.9	524
Weighted average interest rate for the period	1.8		1.9	
Current portion of long-term debt	—	298,794	—	368,335
Interest payable	—	9,750	—	9,014
Fines and penalties on overdue amounts	—	3,477	—	2,097
Total short-term borrowings and current portion of long-term debt.....		314,836		381,317

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	December 31, 2020		December 31, 2019	
	Interest rate, %	Amount of outstanding debt	Interest rate, %	Amount of outstanding debt
Long-term debt				
In Russian rubles				
Banks and financial institutions.....	1.0-6.9	158,969	1.0-9.8	239,659
Bonds issue.....	7.9-8.8	2,432	8.0-11.9	6,370
Corporate lenders	9.3	47	9.3	43
Weighted average interest rate for the period.....	5.8		7.9	
In U.S. dollars				
Banks and financial institutions.....	7.1-7.2	29,576	3.2-9.0	44,725
Weighted average interest rate for the period.....	7.2		8.4	
In euro				
Banks and financial institutions.....	0.3-5.7	109,971	0.8-7.0	84,743
Weighted average interest rate for the period.....	4.7		4.8	
Current part of long-term loans and borrowings.....		(298,794)		(368,335)
Total long-term debt		2,201		7,205

Aggregate scheduled maturities of the debt outstanding as of December 31, 2020 were as follows:

Payable by	
On demand	310,522
2021 (current portion)	4,314
2022.....	2,101
2023.....	17
2024.....	17
2025.....	63
Thereafter	3
Total.....	317,037

The unused portion under all credit facilities except revolving credit lines and overdrafts as of December 31, 2020 and 2019 was RUB 653 million and RUB 514 million, respectively.

The outstanding balances of principal amount of short-term and long-term debt by denominated currencies and major banks as of December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Short-term and long-term debt		
Russian ruble-denominated		
Gazprombank	97,505	139,971
VTB.....	63,313	99,411
Bonds	2,432	6,370
Other.....	842	1,667
Total.....	164,092	247,419
U.S. dollar-denominated		
VTB.....	18,135	27,256
BNP.....	11,441	9,587
VEB.....	—	7,000
Other.....	—	882
Total.....	29,576	44,725
Euro-denominated		
VTB.....	85,898	66,145
BNP.....	18,036	13,793
Wiltan Enterprises Ltd.....	3,590	96
Other.....	2,618	5,233
Total.....	110,142	85,267
Total short-term and long-term debt.....	303,810	377,411

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(a) VTB facilities

The outstanding balances of the euro-denominated credit facilities as of December 31, 2020 and 2019 were RUB 85,898 million and RUB 66,145 million, respectively, bearing interest at 5.3-5.7% p.a.

In April 2020, the Group signed amendment agreement with VTB to restructure the euro-denominated loan of EUR 897 million (RUB 81,318 million as of December 31, 2020) issued to CMP for refinancing of pre-export credit facility in 2018 by extending the repayment grace period until 2022 and the final maturity until 2027, with a further extension of the final repayment period until 2030 if certain conditions are met. Other terms in the restructuring agreement have remained unchanged from the original agreement apart from the updated levels of financial covenants, specific non-financial covenants and assigned restructuring fee. In May 2020, the Group complied with conditions precedent of the agreement and VTB confirmed coming into effect of the restructuring terms under the amendment agreement.

According to the respective amendment agreement, the new ruble-denominated loan in the amount of RUB 870 million was received in September 2020 and was further used to finance a redemption of shares (Note 23), and the new ruble-denominated loan in the amount of RUB 58,507 million was received in October 2020 and was used for the full repayment of VTB credit facilities of CMP, Mechel PAO and SKCC. The new ruble-denominated loans have same maturities and repayment schedule as the euro-denominated loan.

As a result of restructuring due to a decrease in effective interest rate the finance income in the amount of RUB 2,796 million was recognised in the consolidated statements of profit (loss) and other comprehensive income for the year ended December 31, 2020.

In July 2020, the Group signed a working capital loan agreement in the amount of RUB 5,000 million in accordance with the program implemented under the Russian Government Resolution No. 582 dated April 24, 2020.

In September 2020, the new ruble-denominated overdraft loan agreements were signed for a total amount of RUB 2,500 million.

The outstanding balances of the ruble-denominated facilities as of December 31, 2020 and 2019 were RUB 63,313 million and RUB 99,411 million, respectively, bearing interest at 3.7-5.8% p.a.

The outstanding balance of the U.S. dollar-denominated credit facilities as of December 31, 2020 and 2019 was RUB 18,135 million and RUB 27,256 million, respectively, bearing interest at 7.2% p.a.

Along with the restructuring of the CMP loan, the Group signed amendment agreements with VTB for extension of repayment of principal amounts due in February-March 2020 under two U.S. dollar-denominated credit facilities of SKCC of \$18 million (RUB 1,349 million as of December 31, 2020) until November 2020. In October 2020, the Group signed amendment agreements for further extension of the above principal repayment until February 2021 (Note 27).

To refinance the U.S. dollar-denominated facilities of SKCC, in April 2020, a new credit agreement was signed between VTB and SKCC, according to which VTB provides a credit line with a credit limit of \$327 million (24,157 million rubles as of December 31, 2020) with the final maturity until April 2022. The major covenants are aligned with the covenants of the restructured VTB euro-denominated loan. As of December 31, 2020, no cash has been received under this agreement as conditions to draw the credit facility have not occurred (Note 27).

Upon sale of the Elga coal complex, the consideration received was used for repayment of VTB loans in the amount of RUB 51,113 million.

(b) Gazprombank facilities

The outstanding balances of the ruble-denominated facilities as December 31, 2020 and 2019 were RUB 97,505 million and RUB 139,971 million, respectively, bearing interest at 5.8% p.a.

In April 2020, as a result of restructuring of Gazprombank loans, additional amendments were signed for all Gazprombank facilities with Beloretsk Metallurgical Plant ("BMP"), Mechel Energo, Mechel Coke, SKCC, Mechel Service, CMP, Urals Stamping Plant ("USP"), Port Posiet, Yakutugol in the amount of RUB 101,459 million including interest and fines and penalties as of the date of the restructuring.

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In May 2020, the Group complied with the conditions precedent of the agreements and Gazprombank confirmed coming into effect of the restructuring terms under the amendment agreements including the extension of the original debt maturity until March 2027 with a further extension of the final repayment period until 2030 if the extension conditions are met. Other terms in the restructuring agreements have remained unchanged from the original agreements apart from the updated levels of financial covenants, specific non-financial covenants and assigned restructuring fee.

Upon sale of the Elga coal complex, the consideration received was used for repayment of the ruble-denominated loans of Gazprombank in the amount of RUB 37,887 million.

(c) VEB facility

VEB credit facility at Elgaugol of RUB 7,000 million as of December 31, 2019 (\$113,069 thousand at exchange rate as of December 31, 2019) was disposed of in the course of sale of the Elga coal complex in April 2020.

(d) Bonds

During 2009-2011, Mechel PAO placed a number of issues of the 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 40,000 million with maturity dates between February 2020 and July 2021. The range of coupon interest rate as of December 31, 2020 varies from 7.9% p.a. to 8.8% p.a.

(e) Other loans

In 2010-2020, the Group signed revolving credit agreements and overdrafts for working capital financing up to RUB 7,832 million with several banks. The unused portion under the revolving credit lines and overdrafts is RUB 3,981 million as of December 31, 2020. These revolving credit lines allow the Group to withdraw, repay and re-draw in the agreed amounts, timing and number of times until the arrangement expires. Borrowings bear interest at 1.3-6.9% p.a.

(f) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 99%-2 shares of Yakutugol, 95% + 3 shares of SKCC, 91.66% of shares of CMP, 50% + 2 shares of common shares of BMP, 50% + 2 shares of KMP, 87.5%+3 shares of Mechel Mining, 74% + 1 share of USP, 25% + 1 share of Izhtal, 25% + 1 share of Port Posiet, 25% of registered capital of BFP, 25% of registered capital of Port Temryuk and 1.95% of shares of Mechel PAO as of December 31, 2020.

As of December 31, 2020 and 2019, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 21,522 million and RUB 116,717 million, respectively. Carrying value of inventories pledged under the loan agreements amounted to RUB 2,253 million and RUB 2,931 million as of December 31, 2020 and 2019, respectively. Accounts receivable pledged as of December 31, 2020 and 2019 amounted to RUB 145 million and RUB 179 million, respectively. Additionally, CMP pledged its rights to receive future payments (revenue) related to the contract with Russian Railways JSC in the amount of RUB 7,388 million (\$100 million).¹

(g) Covenants

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

¹ CMP's accounts receivable from Russian Railways JSC as of December 31, 2020 amounted to nil.

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The Group was required to comply with the following ratios under the most significant loan agreements with the Russian state-controlled banks as of December 31, 2020²:

Restrictive covenants	Requirement	Actual as of December 31, 2020
Group's Adjusted EBITDA ³ to Net Interest Expense	Shall not be less than 2.0:1.0	1.67:1.0
Group's Adjusted EBITDA to Consolidated Financial Expense	Shall not be less than 2.0:1.0	1.64:1.0
Group's Net Debt to Adjusted EBITDA	Shall not exceed 6.0:1.0	8.05:1.0
Group's Total Debt to Adjusted EBITDA	Shall not exceed 6.0:1.0	8.08:1.0
Group's Cash flow from operating activities to Adjusted EBITDA	Shall not be less than 0.80:1.0	0.90:1.0
Group's Adjusted EBITDA to Revenue	Shall not be less than 0.15:1.0	0.15:1.0

In April 2020, the Group received a waiver from VTB for financial and non-financial covenants holiday period until December 31, 2020 set under the ruble-denominated loans of RUB 58,507 million which were fully repaid in October 2020 and under the U.S. dollar-denominated loans of \$245 million (RUB 18,135 million as of December 31, 2020). In December 2020, the Group received a waiver from VTB for financial and non-financial covenants holiday period until February 28, 2021 set under the U.S. dollar-denominated loans of \$245 million (RUB 18,135 million as of December 31, 2020).

As of December 31, 2020, the Group was not in compliance with several financial and non-financial covenants set by the loan agreements with the Russian state-controlled banks. Also, the Group was not in compliance with covenants contained in the loan agreements with foreign banks (such as Net Borrowings to Adjusted EBITDA ratio, Adjusted EBITDA to Net Interest Expense ratio and targeted amount of Adjusted Shareholder's Equity).

There was a default on payments of principal and interest in the amount of RUB 30,835 million and RUB 2,000 million as of December 31, 2020 and in the amount of RUB 25,354 million and RUB 1,563 million as of December 31, 2019, respectively, which is represented by ECA-covered loans (represented by the credit facilities of BNP Paribas and other international lenders). The fines and penalties on overdue amounts of RUB 3,477 million and RUB 2,097 million were recorded in loans and borrowings in the consolidated statement of financial position as of December 31, 2020 and 2019, respectively. The fines and penalties in the amount of RUB 1,080 million, RUB 733 million and RUB 847 million were recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income for the years ended December 31, 2020, 2019 and 2018, respectively. The Group regularly receives notifications on defaults under the facility agreements with ECA-lenders, as well as reservation of rights letters and calls of guarantees. The long-term debt of RUB 248,667 million was reclassified to short-term liabilities as of December 31, 2020 as a result of non-compliance with covenants and a default on payments of principal and interest.

10.2 Leases

The Group has lease contracts for various items of land, operating machinery and equipment and transportation vehicles. None of them meets the definition of investment property.

² Net Debt and Total Debt are calculated according to the respective definitions set by the credit agreements. Generally, Total Debt includes outstanding loans, lease, bonds and other finance liability balances; Net Debt is equal to Total Debt less cash and cash equivalents.

³ Adjusted EBITDA is calculated as defined in the respective loan agreements.

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Set out below are the carrying amounts of right-of-use assets recognised and the movements during the years ended December 31, 2020 and 2019:

	Land	Buildings and constructions	Operating machinery and equipment	Transporta- tion vehicles	Total
As of January 1, 2019	–	–	643	9,469	10,112
Adjustment on initial application of IFRS 16	1,932	681	73	12	2,698
Additions as a result of new leases and capitalized leasehold improvements.....	54	537	257	7,088	7,936
Depreciation charge.....	(72)	(138)	(204)	(2,587)	(3,001)
Effect of modification and changes of estimates in lease contracts.....	137	4	142	311	594
Impairment	(72)	–	(19)	(363)	(454)
Transfer to own property, plant and equipment.....	–	–	(114)	(1)	(115)
Exchange differences on translation of foreign operations.....	(1)	(23)	(15)	(3)	(42)
As of December 31, 2019	1,978	1,061	763	13,926	17,728
Additions as a result of new leases and capitalized leasehold improvements.....	41	70	163	1,804	2,078
Depreciation charge.....	(67)	(266)	(191)	(3,307)	(3,831)
Effect of modification and changes of estimates in lease contracts.....	(265)	153	5	(1,030)	(1,137)
Discontinued operations (Note 25).....	(511)	(13)	–	(1,123)	(1,647)
Impairment	(16)	–	(81)	(303)	(400)
Transfer to own property, plant and equipment.....	–	–	(29)	(4)	(33)
Exchange differences on translation of foreign operations.....	5	46	25	6	82
As of December, 31 2020	1,165	1,051	655	9,969	12,840

The Group presents lease liabilities separately from other liabilities in the consolidated statement of financial position. Set out below are the carrying amounts of lease liabilities and the movements during the years ended December 31, 2020 and 2019:

	2020	2019
Lease liabilities as of January 1	17,355	8,293
Adjustment on initial application of IFRS 16	–	3,259
Additions as a result of new leases.....	573	7,372
Effect of modification and changes of estimates in lease contracts.....	(1,155)	608
Interest expense.....	1,088	1,409
Lease payments	(5,031)	(3,488)
Discontinued operations (Note 25).....	(1,448)	–
Exchange differences on translation of foreign operations.....	99	(34)
Other.....	12	(64)
Lease liabilities as of December 31	11,493	17,355

The total cash outflow for leases during the years ended December 31, 2020 and 2019 was RUB 3,841 million and RUB 5,404 million, respectively. The lease liabilities of RUB 1,490 million were settled through sale and leasing back of railway carriages. The amount of expense relating to short-term leases during the years ended December 31, 2020 and 2019 was RUB 322 million and RUB 1,536 million, respectively.

The total amount of commitments for short-term leases excluding VAT amounted to RUB 104 million and RUB 62 million as of December 31, 2020 and 2019, respectively.

The Group's lease contracts contain a number of restrictions, which include but are not limited to cross-default provisions. As of December 31, 2020 and 2019, 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 4,345 million and RUB 5,480 million were reclassified to short-term lease liabilities due to covenant violations as of December 31, 2020 and 2019, respectively.

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In June 2019, the Group has extended a contract for lease of railway carriages until July 2021 resulting in addition to right-of-use assets and lease liabilities recognised in the amount of RUB 4,862 million. Until May 2019, the contract for lease of these railway carriages was short-term and contract expense was recognised within expense relating to short-term leases.

In March 2020, the Group has reached an agreement with one of the lessors to reduce rental fees for lease of railway carriages, and, as a result of remeasurement of the lease liability, the amount of right-of-use assets and lease liabilities was decreased by RUB 999 million.

The total amount including VAT of additional financing from leaseback transactions was RUB 2,584 million and RUB 344 million during the years ended December 31, 2020 and 2019, respectively.

The Group has lease contracts that have not yet commenced as of December 31, 2020 with the future lease payments of RUB 9 million within one year, RUB 25 million within five years and RUB 5 million thereafter.

10.3 Financial instruments risk management objectives and policies

The Group is exposed to foreign currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks, which are summarised below.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset which can increase the risk of losses. The Group has procedures with the objective of minimising such losses such as maintaining sufficient cash and other highly liquid current assets to meet its liabilities as and when they fall due.

As of December 31, 2020, the Group was in breach of a number of financial and non-financial covenants contained in the Group's loan agreements which led to cross-defaults under other loan and lease agreements, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans.

The following tables show the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates, or if floating, based on rates current at the reporting date) and the earliest the Group can be required to pay.

	Maturity						Total
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years	
At December 31, 2020							
Loans and borrowings, including interest payable.....	311,673	4,333	2,109	18	18	66	318,217
Lease liabilities	6,329	2,521	1,299	672	475	8,187	19,483
Trade and other payables	27,226	13,125	—	—	—	—	40,351
Other financial liabilities.....	—	488	487	481	445	1,272	3,173

	Maturity						Total
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years	
At December 31, 2019							
Loans and borrowings, including interest payable.....	373,799	7,998	5,024	2,325	14	70	389,230
Lease liabilities	8,802	3,992	3,122	1,230	643	12,515	30,304
Trade and other payables	20,210	14,642	—	—	—	—	34,852
Other financial liabilities.....	—	—	54,450	38	38	19	54,545

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Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

The Group is exposed to credit risk from its operating activities (primarily trade receivables (Note 12)) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each subsidiary subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. The contractual credit period for sales of goods is about 30 days on average. No interest is charged on trade receivables.

An impairment analysis is performed at each reporting date on an individual basis for major customers. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. Based on the results of impairment analysis the allowance for expected credit losses on receivables is recognised (Note 12).

The maximum exposure to credit risk arising from the Group's financial assets is presented as follows:

	December 31, 2020	December 31, 2019
Restricted cash (excluding cash on hand).....	284	147
Cash deposits (Note 14)	320	1,074
Trade and other receivables.....	16,442	15,442
Other financial assets.....	370	382
- <i>Promissory notes</i>	—	—
- <i>Loans issued</i>	354	368
- <i>Bonds</i>	16	14
Total	17,416	17,045

The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Restricted cash (excluding cash on hands) mostly relates to cash received as advances under the contracts with customers.

Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchanges rates. This risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency different from the Group's functional currencies.

The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. Approximately 23% of the Group's sales are denominated in U.S. dollars and 13% of the Group's sales are denominated in euro, 12% of the Group's borrowings are denominated in U.S. dollars and 36% of the Group's borrowings are denominated in euro. The Group does not have formal arrangements to mitigate foreign currency risk. However, management of the Group believes that the foreign currency risk from sales of the Group denominated in U.S. dollars and euro is partly mitigated by foreign exchange (loss) gain from the Group's borrowings and purchases denominated in foreign currencies, mostly in euro and U.S. dollars.

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The Group's exposure at the reporting date to foreign currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate to is set out in the table below:

Assets and liabilities denominated in U.S. dollars	December 31, 2020	December 31, 2019
Current assets	215	639
Trade and other receivables.....	74	172
Cash and cash equivalents.....	141	467
Non-current liabilities	–	(4,667)
Loans and borrowings	–	(4,667)
Current liabilities	(40,342)	(41,047)
Loans and borrowings	(38,041)	(38,861)
Trade and other payables.....	(2,301)	(2,186)
Assets and liabilities denominated in euro	December 31, 2020	December 31, 2019
Current assets	555	171
Trade and other receivables.....	470	63
Cash and cash equivalents.....	85	108
Non-current liabilities	(2,173)	(148)
Loans and borrowings	(2,084)	–
Lease liabilities.....	(89)	(148)
Current liabilities	(113,510)	(88,794)
Loans and borrowings	(110,359)	(86,213)
Trade and other payables.....	(3,025)	(2,499)
Lease liabilities.....	(126)	(82)

Sensitivity analysis

The table below demonstrates the Group's sensitivity to a devaluation of the Russian ruble against U.S. dollar and euro which management believes is an appropriate measure in the current market conditions and which would impact its operations:

	Change in U.S. dollar to Russian ruble exchange rate	Effect ((decrease)/increase) on profit before tax	Change in Euro to Russian ruble exchange rate	Effect ((decrease)/increase) on profit before tax
2018	+14%	(7,672)	+14%	(14,098)
	-14%	7,672	-14%	14,098
2019	+13%	(5,860)	+13%	(11,540)
	-11%	4,958	-11%	9,765
2020	+16%	(6,420)	+16%	(18,420)
	-16%	6,420	-16%	18,420

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates adversely impacts the financial results of the Group. As of December 31, 2020 and 2019, the share of the borrowings with floating rates in the total amount of the borrowings were 98% (incl. key rate of the Central Bank of the Russian Federation – 51%, LIBOR, EURIBOR and other – 47%) and 97% (incl. key rate of the Central Bank of the Russian Federation – 65%, LIBOR, EURIBOR and other – 32%), respectively.

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The table below demonstrates the Group's sensitivity to the change of floating rates:

	Increase/ decrease in the key rate of the Central Bank of Russian Federation (%)	Effect ((decrease)/ increase) on profit before tax	Increase/ decrease in LIBOR (%)	Effect ((decrease)/ increase) on profit before tax	Increase/ decrease in EURIBOR (%)	Effect ((decrease)/ increase) on profit before tax
2018	+0.75%	(1,922)	+0.50%	(226)	+0.20%	(190)
	-1.00%	2,563	-0.15%	68	-0.01%	9
2019	+1.25%	(3,116)	+0.35%	(145)	+0.15%	(126)
	-1.25%	3,116	-0.35%	145	-0.15%	126
2020	+1.50%	(2,387)	+1.00%	(361)	+0.20%	(225)
	-1.00%	1,592	-0.25%	90	-0.20%	225

10.4 Other current and non-current financial assets

In November 2011, the Group entered into a loan agreement pursuant to which a loan of \$944,530 thousand (RUB 28,433 million at exchange rate as of November 10, 2011) was granted by the Group. According to the loan agreement, in the event that the loan is not repaid at maturity (September 30, 2012), the Group was entitled to enforce the pledge over the pledged third party metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service. The Group has not taken possession of assets provided as collateral because these entities are under the bankruptcy procedure and burdened with substantial amount of debt.

The Group evaluates the recoverability of the loan based on the fair value of the pledged assets. As of December 31, 2020 and 2019, this loan in the amount of RUB 7,992 million and RUB 7,992 million, respectively, was fully provided for as the fair value of the pledged assets was nil as at these dates. In 2019, this loan was partially written off in the amount of \$34,929 thousand (RUB 2,250 million at the dates of transactions), due to liquidation of certain debtors.

10.5 Other non-current financial liabilities

In April 2020, other non-current financial liabilities of RUB 49,418 million (RUB 48,201 million as of December 31, 2019) under the put option of Gazprombank were derecognised upon the Elga coal complex disposal (Note 25). The put option of Gazprombank was estimated at the present value of the consideration to be transferred upon the exercise of the put option discounted at the key rate of the Central Bank of the Russian Federation plus 2%. The respective finance cost was recognised in the consolidated statement of profit (loss) and other comprehensive income within discontinued operations in the amount of RUB 1,217 million, RUB 4,145 million and RUB 3,796 million for 2020, 2019 and 2018, respectively (Note 25).

In March 2020, the Group sold and leased back railway carriages for a period from 7 to 10 years for a purpose of additional financing resulting in recognition of other non-current financial liabilities and other current financial liabilities of RUB 2,519 million (including VAT). The Group has an obligation to repurchase the underlying assets set by contract.

11. Inventories

	December 31, 2020	December 31, 2019
Raw materials	13,178	13,643
Work in progress	9,655	8,565
Finished goods and goods for resale	19,305	17,565
Total inventories at the lower of cost and net realisable value	42,138	39,773

During 2020, RUB 796 million (2019: RUB 1,628 million, 2018: RUB 756 million) was recognised as an expense within cost of sales for inventories carried at net realisable value. The amount of inventories recognised as an expense during the period was RUB 147,513 million for 2020 (2019: RUB 158,528 million, 2018: RUB 149,719 million).

The finished goods contain raw coal, which can be sold to third parties in its current condition or sent for processing for further sale in the amount of RUB 2,825 million and RUB 2,312 million as of December 31, 2020 and 2019, respectively.

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12. Trade and other receivables, net

Due to negative market trends caused by the COVID-19 pandemic credit risk increased in 2020 as counterparties faced difficulties in generating and raising sufficient cash flows to provide liquidity. Allowance for expected credit losses was adjusted in order to reflect uncertainty followed by the COVID-19 impact.

	December 31, 2020	December 31, 2019
Trade receivables, including from contracts with.....	21,863	21,262
- domestic customers	18,104	18,251
- foreign customers.....	3,759	3,011
Less allowance for expected credit losses on trade receivables.....	(5,984)	(6,200)
Total trade receivables, net.....	15,879	15,062
Other receivables.....	4,035	2,933
Less allowance for expected credit losses on other receivables	(3,511)	(2,655)
Total other receivables, net.....	524	278
Total accounts receivable, net.....	16,403	15,340

Trade receivables included RUB 1,115 million and RUB 459 million of trade receivables subject to provisional pricing measured at fair value through profit or loss as of December 31, 2020 and 2019, respectively.

Trade receivable included RUB 188 million and nil of contract assets as of December 31, 2020 and 2019, respectively.

Set out below is the information about the credit risk exposure on the Group's trade receivables (not subject to provisional pricing) by ageing as of December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Trade receivables	Expected credit losses	Trade receivables	Expected credit losses
Current	11,088	(253)	11,585	(169)
=<30 days.....	2,442	(103)	2,023	(59)
31-60 days.....	590	(129)	502	(99)
61-90 days.....	430	(121)	352	(126)
91-180 days.....	385	(88)	444	(134)
181-365 days.....	547	(175)	659	(565)
>1 year.....	5,266	(5,115)	5,238	(5,048)
Total trade receivables.....	20,748	(5,984)	20,803	(6,200)

The Group does not provide any collateral over these balances.

The movements in the allowance for expected credit losses on trade and other receivables were as follows:

	Total
At December 31, 2017	9,083
Charge	791
Utilised amounts.....	(575)
Exchange rate difference	538
At December 31, 2018	9,837
Charge	226
Utilised amounts.....	(800)
Exchange rate difference	(408)
At December 31, 2019	8,855
Charge	177
Utilised amounts.....	(653)
Discontinued operations.....	(2)
Exchange rate difference	1,118
At December 31, 2020	9,495

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13. Other current and non-current assets

	December 31, 2020	December 31, 2019
Other current assets		
Prepayments and advances	4,428	2,930
Input, recoverable and deferred VAT and other taxes recoverable.....	3,875	3,970
Other current assets	120	82
Total prepayments and other current assets	8,423	6,982
	December 31, 2020	December 31, 2019
Other non-current assets		
Deferred assets from sale and lease back	176	208
Other non-current assets	435	345
Total other non-current assets.....	611	553

Generally in Russia, VAT related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred on purchases may be reclaimed, subject to certain restrictions, against VAT related to sales.

14. Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash on hand	5	6
Cash at banks, including		
- in Russian rubles	849	1,715
- in U.S. dollars	358	1,081
- in euro	415	640
- in other currencies	144	160
Total cash and cash equivalents	1,771	3,602
Less allowance for expected credit losses	(65)	(93)
Total cash and cash equivalents, net.....	1,706	3,509

For the purpose of the consolidated statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 2,644 million and RUB 642 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Group had short-term deposits included in cash at banks of RUB 320 million and RUB 1,074 million, respectively.

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Reconciliation between the changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes:

	Loans and borrowings	Lease liabilities	Deferred payments for acquisition of assets	Effect of sale and leaseback transactions	Put option of Gazprom- bank	Other current financial liabilities	Deferred consideration paid for the acquisition of subsidiaries in prior periods
At December 31, 2017.....	439,893	9,354	1,680	—	40,260	734	4,010
Cash flows	(52,951)	(3,892)	(629)	—	—	(442)	(3,968)
Foreign exchange movement....	24,167	83	—	—	—	—	339
Changes in fair value	—	—	—	—	—	(292)	—
Other changes, including interest.....	7,723	2,748	379	—	3,796	—	—
At December 31, 2018.....	418,832	8,293	1,430	—	44,056	—	381
Cash flows	(42,831)	(3,488)	(341)	234	—	—	(361)
Foreign exchange movement....	(17,636)	(38)	—	—	—	—	(20)
Other changes, including interest.....	30,157	12,588	62	14	4,145	—	—
At December 31, 2019.....	388,522	17,355	1,151	248	48,201	—	—
Cash flows	(121,363)	(3,541)	(508)	278	—	—	—
Foreign exchange movement....	34,053	60	—	—	—	—	—
Non-cash offset (Note 10.2)....	—	(1,490)	—	1,490	—	—	—
Gain on sale of the discontinued operations	(8,031)	(1,448)	(443)	—	(49,418)	—	—
Other changes, including interest.....	23,856	557	(88)	183	1,217	—	—
At December 31, 2020.....	317,037	11,493	112	2,199	—	—	—

The table above does not include dividends paid of RUB 295 million, RUB 1,531 million and RUB 1,394 million, repurchase of common shares of RUB 844 million, nil and nil, proceeds from sale of non-controlling interest in subsidiaries of RUB 169 million, nil and nil and fines and penalties on overdue leases of nil, RUB 39 million and RUB 10 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The amounts presented in other changes are primarily attributable to interest accrued of RUB 23,369 million, RUB 33,159 million and RUB 36,660 million for the years ended December 31, 2020, 2019 and 2018, respectively, new lease agreements of RUB 573 million, RUB 11,234 million (including effect of adoption of IFRS 16 in the amount of RUB 3,259 million) and RUB 1,675 million for the years ended December 31, 2020, 2019 and 2018, respectively, and effect of restructuring of loans of RUB 3,204 million, RUB 25 million and RUB 33,514 million for the years ended December 31, 2020, 2019 and 2018, respectively.

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15. Property, plant and equipment

	Land	Buildings and constructions	Operating machinery and equipment	Transportation vehicles	Other equipment	Construction-in-progress	Mining plant and equipment	Railway Ulak-Elga	Total
Cost									
At December 31, 2017	3,095	80,813	117,638	30,831	996	19,645	16,977	74,808	344,803
Additions	9	10	2,423	2,048	83	6,851	50	—	11,474
Change in rehabilitation provision	—	(187)	—	—	—	—	(102)	—	(289)
Transfers	1	487	2,750	251	97	(4,099)	119	394	—
Disposals	(255)	(649)	(1,734)	(1,410)	(32)	(509)	(136)	—	(4,725)
Exchange differences on translation of foreign operations	91	277	251	40	28	—	—	—	687
At December 31, 2018	2,941	80,751	121,328	31,760	1,172	21,888	16,908	75,202	351,950
Transfer to right-of-use assets on initial application of IFRS 16	—	—	(1,745)	(14,557)	—	—	—	—	(16,302)
Additions	—	27	1,180	282	33	7,332	38	—	8,892
Change in rehabilitation provision	—	456	—	—	—	—	707	—	1,163
Transfers	(9)	2,606	3,176	262	21	(6,752)	(26)	722	—
Transfer to own property, plant and equipment	—	—	752	95	—	—	—	—	847
Disposals	(24)	(240)	(2,400)	(2,045)	(33)	(990)	—	—	(5,732)
Exchange differences on translation of foreign operations	(84)	(263)	(223)	(29)	(30)	(2)	—	—	(631)
At December 31, 2019	2,824	83,337	122,068	15,768	1,163	21,476	17,627	75,924	340,187
Additions	—	26	1,332	413	41	5,442	9	—	7,263
Change in rehabilitation provision	—	30	—	—	—	—	170	—	200
Transfers	1	4,106	5,521	117	20	(9,772)	7	—	—
Transfer to own property, plant and equipment	—	—	57	5	—	—	—	—	62
Disposals	(47)	(377)	(1,981)	(954)	(35)	(449)	(974)	—	(4,817)
Discontinued operations (Note 25)	—	(11,804)	(4,887)	(2,379)	(153)	(9,044)	(5,783)	(75,924)	(109,974)
Exchange differences on translation of foreign operations	169	553	487	73	48	1	—	—	1,331
At December 31, 2020	2,947	75,871	122,597	13,043	1,084	7,654	11,056	—	234,252
Depreciation and impairment									
At December 31, 2017	(292)	(40,275)	(80,872)	(17,738)	(797)	(1,733)	(4,412)	(809)	(146,928)
Depreciation charge	—	(3,550)	(7,273)	(2,253)	(99)	—	(180)	(279)	(13,634)
Transfers	—	(150)	(35)	5	23	24	133	—	—
Disposals	223	437	1,628	1,312	27	23	37	—	3,687
Impairment	(43)	(319)	(1,065)	(709)	(15)	(536)	(2,153)	—	(4,840)
Exchange differences on translation of foreign operations	(3)	(110)	(191)	(28)	(24)	—	—	—	(356)
At December 31, 2018	(115)	(43,967)	(87,808)	(19,411)	(885)	(2,222)	(6,575)	(1,088)	(162,071)
Transfer to right-of-use assets on initial application of IFRS 16	—	—	1,102	5,088	—	—	—	—	6,190
Depreciation charge	—	(2,781)	(6,764)	(882)	(53)	—	(186)	(295)	(10,961)
Transfers	—	(19)	(103)	(43)	1	163	1	—	—
Transfer to own property, plant and equipment	—	—	(638)	(94)	—	—	—	—	(732)
Disposals	22	193	2,228	1,996	21	30	—	—	4,490
Reversal of impairment/ (impairment)	36	634	1,617	(9)	9	(473)	(19)	—	1,795
Exchange differences on translation of foreign operations	3	114	192	34	23	—	—	—	366
At December 31, 2019	(54)	(45,826)	(90,174)	(13,321)	(884)	(2,502)	(6,779)	(1,383)	(160,923)
Depreciation charge	—	(2,695)	(6,212)	(583)	(51)	—	(144)	(73)	(9,758)
Transfers	—	(399)	(537)	(30)	(2)	986	(18)	—	—
Transfer to own property, plant and equipment	—	—	(28)	(1)	—	—	—	—	(29)
Disposals	—	302	1,842	948	2	200	933	—	4,227
Discontinued operations (Note 25)	—	7,934	2,744	2,240	78	—	111	1,456	14,563
Impairment	—	(25)	(37)	—	—	(105)	(6)	—	(173)
Exchange differences on translation of foreign operations	—	(260)	(428)	(83)	(42)	—	(1)	—	(814)
At December 31, 2020	(54)	(40,969)	(92,830)	(10,830)	(899)	(1,421)	(5,904)	—	(152,907)
Net book value									
At December 31, 2017	2,803	40,538	36,766	13,093	199	17,912	12,565	73,999	197,875
At December 31, 2018	2,826	36,784	33,520	12,349	287	19,666	10,333	74,114	189,879
At December 31, 2019	2,770	37,511	31,894	2,447	279	18,974	10,848	74,541	179,264
At December 31, 2020	2,893	34,902	29,767	2,213	185	6,233	5,152	—	81,345

As of December 31, 2020 and 2019, the Group performed an impairment analysis of property, plant and equipment (Note 17).

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Assets under construction

As of December 31, 2020 and 2019, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 299 million and RUB 277 million, respectively.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2020 was RUB 66 million (2019: RUB 309 million, 2018: RUB 492 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 7.13% (2019: 8.57%, 2018: 8.55%), which is the average rate of the eligible borrowings.

Contractual commitments

As of December 31, 2020 and 2019, the total Group's contractual commitments to acquire property, plant and equipment excluding VAT amounted to RUB 9,300 million and RUB 10,506 million, respectively.

16. Intangible assets

	Goodwill	Mineral licenses	Other intangible assets
Cost			
At December 31, 2017	32,878	55,618	880
Exchange differences on translation of foreign operations.....	90	—	—
At December 31, 2018	32,968	55,618	880
Exchange differences on translation of foreign operations.....	(57)	—	—
At December 31, 2019	32,911	55,618	880
Disposals	—	(1,023)	—
Discontinued operations (Note 25).....	—	(11,823)	—
Exchange differences on translation of foreign operations.....	90	—	—
At December 31, 2020	33,001	42,772	880
Amortisation and impairment			
At December 31, 2017	(14,547)	(22,378)	—
Impairment	(2,382)	—	—
Amortisation.....	—	(1,172)	(36)
At December 31, 2018	(16,929)	(23,550)	(36)
Impairment	(3,139)	(6)	—
Amortisation.....	—	(987)	(35)
At December 31, 2019	(20,068)	(24,543)	(71)
Impairment	(3,324)	—	—
Amortisation.....	—	(921)	(35)
Disposals	—	1,023	—
Discontinued operations (Note 25).....	—	127	—
At December 31, 2020	(23,392)	(24,314)	(106)
Net book value			
At December 31, 2017	18,331	33,240	880
At December 31, 2018	16,039	32,068	844
At December 31, 2019	12,843	31,075	809
At December 31, 2020	9,609	18,458	774

As of December 31, 2020 and 2019, the Group performed an impairment analysis of goodwill (Note 17).

In 2020, four mineral licenses for coal and iron ore deposits which were previously fully impaired were revoked due to non-fulfillment of the terms of the license agreements concerning the start of mining.

As of December 31, 2020 and 2019, the total Group's contractual commitments to acquire intangible assets excluding VAT amounted to RUB nil and nil, respectively.

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17. Impairment of goodwill and other non-current assets

As of December 31, 2020 and 2019, the Group performed an impairment analysis of goodwill and other non-current assets at the level of cash generating units (CGU). The Group considers the relationship between market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. Goodwill acquired through business combinations has been allocated to CGUs for impairment testing as follows (before impairment write-downs):

Cash generating units	Segment	Goodwill	
		December 31, 2020	December 31, 2019
Yakutugol	Mining	10,259	13,399
Kuzbass Power Sales Company	Power	1,026	1,026
Port Posiet	Mining	756	756
Chelyabinsk Metallurgical Plant	Steel	679	589
Southern Kuzbass Coal Company	Mining	143	143
Port Temryuk	Mining	69	69
Total.....		12,932	15,982

As of December 31, 2020 and 2019, the recoverable amount of CGUs was determined based on value in use. Inflation and discount rates, range of discount rates, estimated for each year for the forecasted period, were as follows:

As of December 31, 2019	Forecast period, years				
	2020	2021	2022	2023	2024
Inflation rate in Russia	3.7%	3.4%	3.8%	3.8%	3.8%
Inflation rate in European countries	3.1%	2.7%	2.8%	2.8%	2.9%
Pre-tax discount rate, %.....	10.0%-14.9%	10.0%-14.9%	10.0%-14.9%	10.0%-14.9%	10.0%-14.9%
As of December 31, 2020	2021	2022	2023	2024	2025
Inflation rate in Russia	4.4%	3.7%	3.8%	3.8%	3.8%
Inflation rate in European countries	3.0%	2.9%	2.8%	2.8%	2.8%
Pre-tax discount rate, %.....	10.4%-17.1%	10.4%-17.1%	10.4%-17.1%	10.4%-17.1%	10.4%-17.1%

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated in the range 2.7%-3.9% and is applied to the projected future cash flows after the fifth year.

For the forecasted period from 2021 to 2025, the Group used the following key assumptions on prices for products sold in assessing the recoverable amount of the tested cash generating units:

Cash generating units	Segment	Product, measurement unit	Range of sales prices, FCA
Chelyabinsk Metallurgical Plant	Steel	Rails (Rub, thousand/tn)	43-48
Chelyabinsk Metallurgical Plant	Steel	Rebar (Rub, thousand/tn)	30-32
Chelyabinsk Metallurgical Plant	Steel	Billets (Rub, thousand/tn)	26-28
Izhstal	Steel	Billets (Rub, thousand/tn)	62-64
Izhstal	Steel	Long products (Rub, thousand/tn)	57-61
Yakutugol.....	Mining	Coking coal (Rub, thousand/tn)	3.5-3.5
Yakutugol.....	Mining	Steam coal (Rub, thousand/tn)	1.3-2.4
Southern Kuzbass Coal Company	Mining	Coking coal (Rub, thousand/tn)	4.0-4.4
Southern Kuzbass Coal Company	Mining	Anthracite (Rub, thousand/tn)	3.1-3.2
Southern Kuzbass Coal Company	Mining	Steam coal (Rub, thousand/tn)	0.8-1.0
BFP.....	Steel	Ferrosilicon (Rub, thousand/tn)	62-72
KPSC.....	Power	Electricity (Rub, thousand/kWh)	3.1-3.6

As of December 31, 2020, the Group performed the impairment testing for the following number of CGUs by segments: Steel – 3, Mining – 5 and Power – 2.

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Impairment of goodwill

According to the identified during the reporting period indicators for impairment of goodwill, an impairment loss as of December 31, 2020 was recognised in the following CGU:

Cash generating units	Impairment loss on goodwill for the year ended December 31, 2020
Yakutugol.....	3,324
Total.....	3,324

Goodwill at Yakutugol was impaired in the amount of RUB 3,324 in 2020 due to coal prices decline in long-term forecast along with forthcoming depletion of Neryungrinsky Open Pit, decline in forecasted extraction and sales volumes in 2021-2022 with the shift to the next years as a consequence of current market environment impacted by the COVID-19 pandemic. The remaining carrying value of goodwill was RUB 6,935 million.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2019 was recognised in the following CGU:

Cash generating units	Impairment loss on goodwill for the year ended December 31, 2019
Yakutugol.....	3,139
Total.....	3,139

Goodwill at Yakutugol was impaired in the amount of RUB 3,139 in 2019 due to coal prices decline in long-term forecast along with forthcoming depletion of Neryungrinsky Open Pit. The remaining carrying value of goodwill was RUB 10,259 million.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2018 was recognised in the following CGU:

Cash generating units	Impairment loss on goodwill at December 31, 2018
Southern Kuzbass Power Plant (SKPP).....	2,382
Total.....	2,382

Goodwill at SKPP was written down from RUB 2,382 million to nil as of December 31, 2018 due to the breakdown of generating equipment and increased raw materials cost, that led to the increased idle and maintenance costs and reduced generating capacity forecasts.

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Impairment of non-current assets

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2020:

Cash generating units	Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2020
Korshunov Mining Plant (KMP)	505
Other	68
Total	573

Estimated future cash flows remained negative at KMP therefore property, plant and equipment and right-of-use assets acquired in 2020 for the purpose to maintain production volumes in accordance with the license agreement obligations was written down to nil as of December 31, 2020.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2019:

Cash generating units	Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2019
Bratsk Ferroalloy Plant (BFP)	727
Korshunov Mining Plant (KMP)	549
Total	1,276

Impairment of non-current assets at BFP of RUB 727 million was recognised due to ferrosilicon prices decline in long-term forecast. The remaining carrying value of the property, plant and equipment, right-of-use assets and mineral licenses of BFP was RUB 702 million. Estimated future cash flows remained negative at KMP therefore property, plant and equipment and right-of-use assets acquired in 2019 for the purpose to maintain production volumes in accordance with the license agreement obligations was written down to nil as of December 31, 2019.

According to the results of the impairment analysis, reversal of previously recognised impairment loss of non-current assets was identified for the following CGUs as of December 31, 2019:

Cash generating units	Gain from reversal of previously recognised impairment loss on non-current assets at December 31, 2019
Izhstal	2,611
Total	2,611

An impairment loss of non-current assets previously recognised at Izhstal was reversed of RUB 2,611 million due to decline in purchase prices for electrodes used as raw materials for steel production in a long-term forecast and decrease in pre-tax discount rate. The remaining carrying value of the property, plant and equipment and right-of-use assets of Izhstal was RUB 4,199 million.

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According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2018:

Cash generating units	Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2018
Korshunov Mining Plant (KMP)	1,151
Izhstal	781
Southern Kuzbass Power Plant (SKPP)	337
Total	2,269

The carrying value of property, plant and equipment and right-of-use assets at KMP was written down to nil as of December 31, 2017. However, during 2018, new non-current assets were acquired for the purpose to maintain production volumes in accordance with the license agreement obligations. As of December 31, 2018, estimated future cash flows remain negative due to high transportation cost per tonne and significant costs of large-scale stripping works in order to fulfil required level of extraction. Therefore, an additional impairment of property, plant and equipment and right-of-use assets at KMP of RUB 1,151 million was recognised as of December 31, 2018.

Impairment of property, plant and equipment at Izhstal of RUB 781 million was caused by the shift of production technology to casting own steel instead of acquiring billets, increased projected cost of purchased scrap metal and continued growth in long-term production costs. The remaining carrying value of the property, plant and equipment of Izhstal was RUB 1,799 million.

Impairment of non-current assets at SKPP of RUB 337 million represents the remaining loss allocated after the reduction of carrying value of goodwill at SKPP as described above. The remaining carrying value of the property, plant and equipment of SKPP was RUB 1,889 million.

Carrying value of individual items of the non-current assets for the respective entities including the underground mining workings at SKCC was impaired due to changes in the Group's management plans to invest funds into the ongoing construction projects and, as a result, the inability of these assets to generate future economic benefits in the current market conditions:

Subsidiaries	Impairment loss on non-current assets identified for individual items of assets at December 31, 2018
Southern Kuzbass Coal Company (SKCC)	2,533
Other	38
Total	2,571

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, cash flows growth rates after the forecasted period and change in operating profit due to changes in sales and extraction volumes and selling prices.

Based on the sensitivity analysis carried out as of December 31, 2020, a 3% decrease in future planned revenues would trigger additional impairment of goodwill of RUB 3,606 million at Yakutugol, and a 1% increase in discount rate would lead to additional impairment of goodwill of RUB 1,481 million at Yakutugol.

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The calculated value in use of Yakutugol is sensitive to annual production volumes. If annual production volumes are decreased by 20%, the value in use of Yakutugol would trigger additional impairment of goodwill of RUB 1,329 million.

For the cash-generating units, which were not impaired in the reporting period and for which the reasonably possible changes could lead to impairment, the recoverable amounts would become equal to their carrying amounts if the assumptions used to measure the recoverable amounts changed by the following percentages: decrease in sales prices of 3.3%, 1.3%, 1.6% and 0.2% at SKCC, Izhstal, BFP and SKPP, respectively, decrease in growth rate of 0.6% at SKPP and increase in discount rate of 0.5% and 2.1% at SKPP and SKCC, respectively. The recoverable amounts of SKCC, Izhstal, BFP and SKPP based on initial key assumptions exceed the carrying amounts by RUB 12,101 million, RUB 2,889 million, RUB 901 million and RUB 117 million, respectively.

Reasonably possible changes in other key assumptions used in assessing recoverable amount of CGUs as of December 31, 2020 do not lead to excess of carrying value over recoverable amount. The Group considered potential impacts and effects of the COVID-19 pandemic, including the estimated impact on the macro economic environment, lower demand for Group's products and negative pressure on selling prices based on the experience of 2020 when the downturn of economy affected the decline in Group's performance. The recovery of the sales volumes and selling prices may be slower than reasonably expected due to macroeconomic uncertainty and instability from the COVID-19 pandemic impact.

18. Trade and other payables

	December 31, 2020	December 31, 2019
Trade payables.....	32,290	27,806
Other payables.....	11,493	10,438
Total trade and other payables.....	43,783	38,244

Other payables include accruals for fines and penalties, payables for property, plant and equipment acquired, salaries payable, dividends payable and other.

	December 31, 2020	December 31, 2019
Other payables		
Accounts payable for property, plant and equipment.....	3,650	3,164
Wages and salaries payable and other related obligations.....	3,378	3,538
Dividends payable, common shares	7	136
Dividends payable, preferred shares.....	3	80
Other.....	4,455	3,520
Total.....	11,493	10,438

19. Income tax

The major components of income tax expense for the years ended December 31, 2020, 2019 and 2018 are:

Recognised in profit or loss from continuing operations	2020	2019*	2018*
Current income tax			
Current income tax charge.....	(2,118)	(2,921)	(2,433)
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position.....	2,167	(2,718)	(3,046)
Deferred tax			
Relating to origination and reversal of temporary differences.....	(2,577)	(2,274)	2,826
Income tax expense reported in the consolidated statement of profit (loss) and other comprehensive income	(2,528)	(7,913)	(2,653)

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

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In January 2013, the Group created the consolidated group of taxpayers in accordance with the Tax code of the Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ. The existence of the consolidated group of taxpayers is subject to compliance with several conditions stated in the Tax code of the Russian Federation. The Group believes that these conditions were met as of December 31, 2020, 2019 and 2018. In 2014-2020, the consolidated group of taxpayers consisted of 20 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. Under the Federal law of the Russian Federation of August 3, 2018 No. 302-FZ, the Russian legislation introduced a limitation for registration by the tax authorities of agreements on the establishment of consolidated group of taxpayers, changes to contracts related to the accession of new members of such groups, withdrawal of participants, the extension of the agreement on the established consolidated group of taxpayers and termination of the consolidated group of taxpayers by January 1, 2023.

For subsidiaries which are not included in the consolidated group of taxpayers, income taxes are calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognised in the accompanying consolidated financial statements in the amount determined by the Group in accordance with IAS 12.

During 2018-2020, income tax was calculated at 20% of taxable profit in Russia and Kazakhstan, and at 25% in Austria. Income tax in Germany was calculated at 32.10%, 32.10% and 32.10% for 2018, 2019 and 2020. Amendments in the tax legislation of Switzerland resulted in the increase in tax rate from 10.5%-11% to 12.53% since January 1, 2020.

Starting 2018 up to the date of disposal (Note 25), Elgaugol used a privilege and applied a 0% income tax rate due to fulfillment of conditions of the Regional investment project.

The reconciliation between the income tax expense computed by applying the Russian enacted statutory tax rates to the income from continuing operations before tax and non-controlling interest, to the income tax expense reported in the consolidated financial statements is as follows:

	Notes	2020	2019*	2018*
(Loss)/profit before tax from continuing operations.....		(37,625)	18,988	23,550
Loss before tax from discontinued operations.....	25	(3,953)	(6,716)	(7,333)
Accounting (loss)/profit before tax.....		(41,578)	12,272	16,217
Income tax benefit (expense) at statutory income tax rate of 20%.....		8,316	(2,454)	(3,243)
<i>Adjustments:</i>				
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position.....		2,167	(2,718)	(2,962)
Unrecognised current year tax losses and write-off of previously recognised asset on tax losses		(9,728)	(1,277)	4,008
Non-deductible expenses for tax purposes		(1,443)	(948)	(3,512)
Impairment of goodwill.....		(665)	(628)	(476)
Effect of restructuring and expense related to fines and penalties on breach of covenants in credit agreements.....		(16)	–	3,460
Effect of different tax rates.....		(1,172)	155	(12)
Change in tax rate.....		(5)	(117)	56
At the effective income tax rate of (6.1)% (65.1% in 2019, 16.5% in 2018) income tax expense		(2,546)	(7,987)	(2,681)
Income tax expense reported in the consolidated statement of profit (loss) and other comprehensive income from continuing operations.....		(2,528)	(7,913)	(2,653)
Income tax attributable to a discontinued operation.....	25	(18)	(74)	(28)
Total income tax expense		(2,546)	(7,987)	(2,681)

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

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Unrecognised current year tax losses and write-off of previously recognised asset on tax losses relate to increase in unrecognised deferred tax assets in the amount of RUB 9,527 million, RUB 2,319 million and decrease in unrecognized deferred tax assets in the amount of RUB 2,480 million due to reassessment of deferred tax assets arising from the carryforward of unused tax losses of the consolidated group of taxpayers in 2020, 2019 and 2018, respectively.

Effect of different tax rates included the amount of RUB 642 million, RUB 49 million losses and RUB 259 million income in 2020, 2019 and 2018, respectively, related to applying a privilege on income tax by Elgaugol up to date of disposal (Note 25).

The deferred tax balances were calculated by applying the currently enacted statutory income tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse.

The amounts reported in the accompanying consolidated financial statements consisted of the following:

	January 1, 2020	Tax (expense) benefit during the period recognised in profit or loss	Disposals of subsidiaries	Other	December 31, 2020
Deferred tax assets					
Property, plant, equipment and right-of-use assets.....	686	(291)	–	3	398
Rehabilitation provision.....	1,068	71	(188)	–	951
Inventories	1,679	(41)	(13)	5	1,630
Trade and other receivables	519	(268)	–	–	251
Loans and borrowings.....	360	(342)	–	–	18
Lease liabilities	2,577	(881)	(181)	18	1,533
Other financial liabilities.....	–	412	–	–	412
Trade and other payables and other liabilities.....	529	426	(12)	1	944
Net operating loss carry-forwards.....	10,403	(2,345)	(2,723)	20	5,355
Other	111	133	(11)	132	365
Deferred tax liabilities					
Property, plant, equipment and right-of-use assets.....	(17,805)	625	7,371	(100)	(9,909)
Mineral licenses	(6,141)	181	2,318	–	(3,642)
Inventories	(989)	42	–	(5)	(952)
Trade and other receivables	(774)	189	–	(6)	(591)
Loans and borrowings.....	(2,073)	(572)	–	–	(2,645)
Trade and other payables and other liabilities.....	(379)	87	6	(44)	(330)
Deferred tax assets (liabilities), net.....	(10,229)	(2,574)	6,567	24	(6,212)

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	January 1, 2019	Adjustment on initial application of IFRS 16	January 1, 2019 adjusted for the effect of IFRS 16	Tax (expense) benefit during the period recognised in profit or loss	Other	December 31, 2019
Deferred tax assets						
Property, plant, equipment and right- of-use assets	386	(86)	300	386	—	686
Rehabilitation provision.....	773	—	773	295	—	1,068
Inventories	1,716	—	1,716	(36)	(1)	1,679
Trade and other receivables	790	—	790	(269)	(2)	519
Loans and borrowings.....	320	—	320	40	—	360
Lease liabilities	843	651	1,494	1,087	(4)	2,577
Trade and other payables and other liabilities.....	869	—	869	(340)	—	529
Net operating loss carry-forwards	13,623	—	13,623	(3,210)	(10)	10,403
Other	74	—	74	40	(3)	111
Deferred tax liabilities						
Property, plant, equipment and right- of-use assets	(15,468)	(537)	(16,005)	(1,830)	30	(17,805)
Mineral licenses	(6,376)	—	(6,376)	235	—	(6,141)
Inventories	(834)	—	(834)	(160)	5	(989)
Trade and other receivables	(499)	—	(499)	(280)	5	(774)
Loans and borrowings.....	(3,898)	—	(3,898)	1,825	—	(2,073)
Trade and other payables and other liabilities.....	(337)	—	(337)	(71)	29	(379)
Deferred tax assets (liabilities), net....	(8,018)	28	(7,990)	(2,288)	49	(10,229)

	January 1, 2018	Adjustment on initial application of IFRS 9	January 1, 2018 adjusted for the effect of IFRS 9	Tax (expense) benefit during the period recognised in profit or loss	Other	December 31, 2018
Deferred tax assets						
Property, plant and equipment	759	—	759	(373)	—	386
Rehabilitation provision.....	802	—	802	(29)	—	773
Inventories	179	—	179	1,537	—	1,716
Trade and other receivables	735	—	735	52	3	790
Loans and borrowings.....	313	822	1,135	(815)	—	320
Lease liabilities	983	—	983	(141)	1	843
Trade and other payables and other liabilities.....	656	—	656	213	—	869
Net operating loss carry-forwards	7,972	—	7,972	5,646	5	13,623
Other	86	—	86	(15)	3	74
Deferred tax liabilities						
Property, plant and equipment	(15,869)	—	(15,869)	429	(28)	(15,468)
Mineral licenses	(6,652)	—	(6,652)	276	—	(6,376)
Inventories	(801)	—	(801)	(28)	(5)	(834)
Trade and other receivables	(330)	—	(330)	(160)	(9)	(499)
Loans and borrowings.....	(112)	50	(62)	(3,835)	(1)	(3,898)
Trade and other payables and other liabilities.....	(119)	—	(119)	(161)	(57)	(337)
Deferred tax assets (liabilities), net....	(11,398)	872	(10,526)	2,596	(88)	(8,018)

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Recognised in the consolidated statement of financial position:

	December 31, 2020	December 31, 2019
Deferred tax assets	561	3,648
Deferred tax liabilities	(6,773)	(13,877)
Deferred tax liabilities, net.....	(6,212)	(10,229)

Reconciliation of deferred tax (expense) benefit during the period recognised in profit or loss is provided below:

Deferred tax (expense) benefit during the period	2020	2019	2018
Tax (expense) benefit attributable to continuing operation	(2,577)	(2,274)	2,826
Tax (expense) benefit attributable to discontinued operation	3	(14)	(230)
Tax (expense) benefit during the period recognised in profit or loss	(2,574)	(2,288)	2,596

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

For consolidated financial reporting purposes, the Group has not recognised deferred tax assets in the amount of RUB 38,153 million (December 31, 2019: RUB 29,600 million) on losses in the amount of RUB 191,411 million (December 31, 2019: RUB 150,460 million) that are available to carry forward against future taxable income of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will be available for utilisation of such assets. Deferred tax assets on net operating loss carry forwards which are considered to be realisable in the future, are mostly related to the Russian subsidiaries. The calculated future taxable profit is sensitive to operational results. The recovery of the sales volumes and selling prices may be slower than reasonably expected due to macroeconomic uncertainty and instability from the COVID-19 pandemic impact.

A deferred tax liability of approximately RUB 566 million and RUB 305 million as of December 31, 2020 and 2019, respectively, has not been recognised for temporary differences related to the Group's investment in foreign subsidiaries primarily as a result of unremitted earnings of consolidated subsidiaries, as it is the Group's intention, generally, to reinvest such earnings permanently.

Similarly, a deferred tax liability of approximately RUB 72 million and RUB 105 million as of December 31, 2020 and 2019, respectively, has not been recognised for temporary difference related to unremitted earnings of consolidated domestic subsidiaries as management believes the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

Probable income tax risks of RUB 6,575 million and RUB 8,984 million as of December 31, 2020 and 2019, respectively, have been recorded in the Group's consolidated financial statements. Due to changes in the Russian tax legislation effective from January, 2017, calculation of the consolidated tax base of the consolidated group of taxpayers and the way to offset current losses and losses received in the previous tax periods (before January 2017) were changed. Due to the absence of official explanations of the regulatory authorities concerning changes, there is an uncertainty in the interpretation. The Group does not believe that any other material income tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2020.

Possible income tax risks of RUB 862 million and RUB 1,663 million as of December 31, 2020 and 2019, respectively, have not been recognised in the Group's consolidated financial statements. Indemnity in the amount of RUB 1.9 billion was included in the purchase and sale agreement related to the Elga coal complex (Note 25) to address different interpretations of the tax law and regulations existed before the disposal date assessed by the management as possible for the income tax and other taxes risk.

MECHEL PAO
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20. Taxes and similar charges payable other than income tax

	December 31, 2020	December 31, 2019
VAT payable	4,705	4,120
Payroll taxes	4,180	3,353
Property tax	614	566
Land lease	591	454
Land tax	323	240
Mineral extraction tax	280	332
Other	276	163
Total	10,969	9,228

21. Pensions and other post-employment benefit plans

In addition to the state pension and social insurance required by the Russian legislation, the Group has a number of defined benefit pension plans that cover the majority of production employees and some other postretirement benefit plans.

A number of the Group's companies provide their former employees with non-state retirement pensions, which are conditional on the member qualifying for the state old age pension. Some employees are also eligible for an early retirement in accordance with the state pension regulations. Specific coal industry rules also provide for certain benefits upon reaching retirement age. Additionally, the Group voluntarily provides financial support, of a defined benefit nature, to its old age and disabled pensioners, who did not acquire any pension under the non-state pension plans.

The Group provides several types of long-term employee benefits such as death-in-service benefit and invalidity pension of a defined benefit nature. The Group also provides former employees with reimbursement of fuel and energy resources, coal used for heating purposes. In addition, one-time lump sum benefits are paid to employees of a number of the Group's companies upon retirement depending on the employment service with the Group and the salary level of an individual employee. All pension plans are unfunded until the qualifying event occurs.

As of December 31, 2020, there were 43,801 active participants under the defined benefit pension plans and other long-term benefit plans and 37,640 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2019 and December 31, 2018, the related figures were 47,288 and 48,531 of active participants under the defined benefit pension plans and other long-term benefits and 37,814 and 38,751 pensioners receiving monthly pensions or other regular financial support from these plans, respectively. The majority of employees at the Group's major subsidiaries belong to the trade unions.

Actuarial valuation of pensions and other long-term benefits for the major subsidiaries as of December 31, 2020 was performed in January 2021. Members' census data as of that date was collected for all relevant business units of the Group.

Pension obligations and expenses determined by the Group are supported by an independent qualified actuary in accordance with the "Projected Unit Credit method" of calculation of actuarial present value of future liabilities.

The state retirement age is one of the factors affecting the retirement of employees from the Group. In October 2018, the state gradually changed the previously established national retirement age; the Group took this circumstance into account in the actuarial valuation of the obligations. The effect of the revaluation of the retirement benefit obligation due to the amended pension legislation of the Russian Federation was reflected as the cost of past services in 2018.

As of December 31, 2020, defined benefit obligations, including pension obligations in the amount of RUB 4,996 million and other long-term benefit obligations in the amount of RUB 867 million (RUB 4,745 million and 803 million as of December 31, 2019, respectively), were presented within Pension obligations in the consolidated statement of financial position.

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Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2018 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2017.....	(4,632)	271	(4,361)
Current service cost.....	(130)	–	(130)
Net interest expense.....	(266)	(13)	(279)
Curtailment/settlement gain.....	4	–	4
Remeasurement of other long-term benefit obligations	(492)	–	(492)
Past service cost	70	–	70
Sub-total included in profit or loss.....	(814)	(13)	(827)
Benefit paid	299	(17)	282
Exchange difference.....	(213)	41	(172)
Actuarial changes arising from changes in demographic assumptions.....	(38)	–	(38)
Actuarial changes arising from changes in financial assumptions...	354	–	354
Experience adjustments	171	–	171
Sub-total included in OCI.....	274	41	315
December 31, 2018.....	(4,873)	282	(4,591)

Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2019 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2018.....	(4,873)	282	(4,591)
Current service cost.....	(210)	–	(210)
Net interest expense.....	(297)	4	(293)
Curtailment/settlement gain.....	–	–	–
Remeasurement of other long-term benefit obligations.....	(25)	–	(25)
Past service cost	–	–	–
Sub-total included in profit or loss.....	(532)	4	(528)
Benefit paid	344	(7)	337
Exchange difference.....	117	(16)	101
Actuarial changes arising from changes in demographic assumptions.....	(88)	–	(88)
Actuarial changes arising from changes in financial assumptions...	(772)	–	(772)
Experience adjustments	(7)	–	(7)
Sub-total included in OCI.....	(750)	(16)	(766)
December 31, 2019.....	(5,811)	263	(5,548)

In 2019, the effect of actuarial changes arising from changes in financial assumptions is connected with the significant decrease in discount rate.

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Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2020 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2019.....	(5,811)	263	(5,548)
Current service cost.....	(220)	—	(220)
Net interest expense.....	(290)	2	(288)
Curtailment/settlement gain.....	—	—	—
Remeasurement of other long-term benefit obligations.....	54	—	54
Past service cost	—	—	—
Discontinued operations.....	186	—	186
Sub-total included in profit or loss.....	(270)	2	(268)
Benefit paid.....	304	(14)	290
Exchange difference.....	(457)	91	(366)
Actuarial changes arising from changes in demographic assumptions.....	—	—	—
Actuarial changes arising from changes in financial assumptions...	(22)	—	(22)
Experience adjustments.....	103	—	103
Discontinued operations.....	(52)	—	(52)
Sub-total included in OCI.....	(428)	91	(337)
December 31, 2020.....	(6,205)	342	(5,863)

Deferred tax related to net loss from remeasurement of defined benefit plans amounted to RUB 119 million and nil as of December 31, 2020 and 2019, respectively

Amounts of the pension obligations recognised in the consolidated statement of the financial position were as follows:

	December 31, 2020	December 31, 2019
Current liabilities.....	631	615
Non-current liabilities.....	5,232	4,933
Total net pension obligations.....	5,863	5,548

The plan asset allocation of the investment portfolio was as follows as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Debt instruments	184	142
Equity instruments.....	97	82
Cash and cash equivalents.....	32	18
Property	17	12
Other assets	12	9
Total plan assets	342	263

The investment strategy employed includes an overall goal to attain a maximum investment return with a strong focus on limiting the amount of risk taken. The strategy is to invest with a medium- to long-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules to avoid concentrations of investments. The vast majority of plan assets are measured using quoted prices in active markets for identical assets (Level 1 assets). The investment portfolio is primarily comprised of debt and equity instruments. Real estate and other alternative investments asset can be included when these have favorable return and risk characteristics. Debt instruments include investment grade and high yield corporate and government bonds with fixed yield and mostly short- to medium maturities. Equity instruments include selected investments in equity securities listed on active exchange market. The valuation of debt and equity securities is determined using a market approach, and is based on an unadjusted quoted prices.

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The Group's entities have a practice to provide lump-sum financial support to former employees as well as certain life-long benefits, so there is a risk of changes in the life expectancy for pensioners. This risk is controlled by using most recent life expectancy tables. The risk of a significant fluctuation in interest rates is offset by actuarial best estimate assumptions in respect of discount rates. The Group does not identify the unusual, specific business plan or risk, as well as any significant risk concentrations. The Group performs sensitivity analysis calculating the whole defined benefit obligation and other long-term benefits obligation in different actuarial assumptions and comparing the results. There are no changes from the previous period in the methods and set of assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation and other long-term benefits obligation is around 11-12 years as of December 31, 2020 and 2019.

The key actuarial assumptions used to determine defined benefit obligations were as follows as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Discount rate		
Russian entities.....	6.40%	6.60%
German entities	0.84%	1.10%
Austrian entities.....	0.50%	0.75%
Inflation rates		
Russian entities.....	3.90%	4.00%
Rate of compensation increase		
Russian entities.....	4.90%	5.10%
German entities	4.00%	4.00%
Austrian entities.....	2.25%	2.25%

The results of sensitivity analysis of defined benefit obligations for the Russian entities as of December 31, 2020 and 2019 are presented below:

	2020	2019
Discount rate		
1% increase	-8.90%	-9.20%
1% decrease.....	10.60%	11.00%
Inflation rate		
1% increase	5.60%	5.90%
1% decrease.....	-5.20%	-5.00%
Rate of compensation increase		
1% increase	3.90%	4.00%
1% decrease.....	- 3.70%	-3.60%
Turnover rate		
3% increase	-5.80%	-7.40%
3% decrease.....	6.10%	7.90%

The results of sensitivity analysis of defined benefit obligations for Austrian entities as of December 31, 2020 and 2019 are presented below:

	2020	2019
Discount rate		
1% increase	-10.00%	-10.20%
1% decrease.....	12.00%	12.20%

The results of sensitivity analysis of defined benefit obligations for German entities as of December 31, 2020 and 2019 are presented below:

	2020	2019
Discount rate		
1% increase	-12.00%	-12.00%
1% decrease.....	18.00%	18.00%

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The sensitivity analyses above have been prepared based on a method that extrapolates the impact on the defined benefit pension obligations and other long-term benefits obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in one significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations and other long-term benefits obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

22. Provisions

	Rehabilitation provision	Provisions for legal claims	Provisions on taxes other than income tax, fines and penalties	Other provisions	Total
At December 31, 2017.....	3,992	2,290	576	315	7,173
Arising.....	—	1,516	199	905	2,620
Utilised.....	(77)	(273)	—	(256)	(606)
Revision in estimated cash flow and discount rate change.....	(309)	—	—	—	(309)
Unused amounts reversed.....	—	(646)	(188)	(20)	(854)
Unwinding of discount.....	302	—	—	—	302
Exchange differences.....	—	215	(4)	4	215
At December 31, 2018.....	3,908	3,102	583	948	8,541
Current.....	189	3,102	583	948	4,822
Non-current.....	3,719	—	—	—	3,719
Arising.....	—	1,346	980	—	2,326
Utilised.....	(30)	(264)	—	(722)	(1,016)
Revision in estimated cash flow and discount rate change.....	1,180	—	—	—	1,180
Unused amounts reversed.....	—	(1,200)	(9)	(197)	(1,406)
Unwinding of discount.....	345	—	—	—	345
Exchange differences.....	—	(150)	(19)	(5)	(174)
At December 31, 2019.....	5,403	2,834	1,535	24	9,796
Current.....	165	2,834	1,535	24	4,558
Non-current.....	5,238	—	—	—	5,238
Arising.....	—	3,037	665	252	3,954
Utilised.....	(18)	(567)	(27)	(20)	(632)
Revision in estimated cash flow and discount rate change.....	233	—	—	—	233
Unused amounts reversed.....	—	(572)	(1,249)	—	(1,821)
Unwinding of discount.....	311	—	—	—	311
Discontinued operations.....	(940)	(61)	—	—	(1,001)
Exchange differences.....	—	246	32	1	279
At December 31, 2020.....	4,989	4,917	956	257	11,119
Current.....	187	4,917	956	257	6,317
Non-current.....	4,802	—	—	—	4,802

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Rehabilitation provision

The Group has numerous site rehabilitation obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The main part of these obligations is not expected to be paid in a foreseeable future, and will be funded from the general Group's resources when respective works will be performed. The Group's rehabilitation provisions primarily relate to its steel and mining production facilities with related landfills and dump areas and its mines. Rehabilitation activities are generally undertaken at the end of the production life at the individual sites. Remaining production lives range from 1 year to 118 years with an average for all sites, weighted by current closure provision of approximately 14 years. The discount rate used in the calculation of the provision as of December 31, 2020 equaled 6.57% (2019: 6.52%). A 0.5% decrease in the discount rates applied of December 31, 2020 would result in an increase to the closure and rehabilitation provision and increase in property, plant and equipment of RUB 371 million. Estimates can also be impacted by the emergence of new rehabilitation techniques, changes in regulatory requirements for rehabilitation, and experience at other operations. These uncertainties may result in future actual expenditure differing from the amounts currently provided for in the balance sheet.

Provisions for legal claims

In 2020, a provision for the disputes over purchases was recognised in the amount of RUB 1,741 million due to negative court judgment. In March 2021, the Group lost a legal case related to these litigations. The court decisions has not yet come into force. The Group plans to file an appeal of the court decision.

Legal claim contingency

As of December 31, 2020, management assesses the outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 1,146 million as possible based on the management's analysis and discussions with the legal advisers.

As of December 31, 2020, the Group as a defendant is involved in the court proceeding regarding the third party metallurgical plant's bankruptcy case. It is not practicable to estimate the potential effect of this claim and the timing of the payment, if any. The Group has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed for the Group.

Provisions on taxes other than income tax

Management believes that the Group has paid or accrued all applicable taxes. The Group recorded RUB 956 million and RUB 1,535 million of other tax claims including fines and penalties that management believes are probable as of December 31, 2020 and 2019, respectively. The Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2020.

Possible tax liabilities on 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 consolidated financial statements. The amount of such liabilities was RUB 468 million and RUB 1,904 million as of December 31, 2020 and 2019, respectively.

Environmental

Possible liabilities, which were identified by management as those that can be subject to potential claims from environmental authorities, are not accrued in the consolidated financial statements. The amount of such liabilities was not significant.

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23. Issued capital and reserves

Common shares

The capital stock of Mechel PAO consists of 416,270,745 common shares, each with a nominal value of 10 Russian rubles, all of which are issued, fully paid for and outstanding under the Russian law, of which 11,494,619 and 1,018,996 were owned by Group's subsidiaries as of December 31, 2020 and 2019, respectively. In December 2019, the Group reacquired 1,018,996 common shares for RUB 63 million. Mechel PAO is authorised to issue additional 81,698,341 common shares with a nominal value of 10 Russian rubles each. In September 2020, the Group reacquired 10,804,058 common shares for RUB 870 million (RUB 80.57 per share). The repurchase price was declared by Mechel PAO's Board of Directors on June 4, 2020 for redemption by the shareholders that have the right to demand buyback of the shares in accordance with the Russian law. The repurchased shares were recognised as treasury shares within the consolidated statement of changes in equity at cost.

Preferred shares

As of December 31, 2020 and 2019, the Group had 138,756,915 preferred shares with a nominal value of 10 Russian rubles each, authorised and issued under the Russian law and representing 25% of the Mechel PAO's share capital, of which 83,963,279 shares were outstanding and fully paid for, and the remaining 54,793,636 shares were owned by one of the Group's subsidiaries. In December 2019, the Group sold 709,130 preferred shares for RUB 63 million. Under the Russian law and the Mechel PAO's Charter, these preferred shares are non-cumulative and have no voting rights, except for cases stipulated by the law and the Charter. The dividend yield paid per one preferred share is also fixed by the Charter and amounts to 20% of the consolidated annual net profit of the Group under IFRS divided by 138,756,915 issued preferred shares.

Distributions made and proposed

Mechel and its subsidiaries can distribute all profits as dividends or transfer them to reserves in accordance with applicable legislation and the charters. Dividends may only be declared from undistributed earnings as shown in the statutory financial statements of Russian subsidiaries. Dividends from Russian companies are generally subject to a 13% withholding tax for residents and 15% for non-residents, which could be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

Effective January 1, 2008, intercompany dividends may be subject to a withholding tax of 0% (if at the date of dividends declaration, the dividend-recipient Russian company held a controlling (over 50%) interest in the share capital of the company (Russian or foreign) of the dividend payer for a period over one year and the residence of the dividend distribution foreign company is not included into the Ministry of Finance offshore list.

On June 30, 2020, Mechel declared dividends to the holders of preferred shares for 2019 in the amount of RUB 482.9 million (RUB 3.48 per preferred share), including RUB 292.2 million dividends to the third party holders of preferred shares.

On June 14, 2019, the Group's subsidiary declared dividends attributable to non-controlling interests of RUB 0.030 million for 2018. On June 28, 2019, Mechel declared dividends to the holders of preferred shares for 2018 in the amount of RUB 2,527 million (RUB 18.21 per preferred share), including RUB 1,516 million dividends to the third party holders of preferred shares.

On June 29, 2018, the Group's subsidiaries declared dividends attributable to non-controlling interests of RUB 0.056 million and Mechel declared dividends to the holders of preferred shares for 2017 in the amount of RUB 2,312 million (RUB 16.66 per preferred share), including RUB 1,387 million dividends to the third party holders of preferred shares.

Additional paid-in capital

In 2020, additional paid-in capital was decreased by RUB 1,024 million as a result of changes in non-controlling interest. The Group sold 3.76% and 0.79% interest in ownership in the Group's subsidiaries for the consideration of RUB 267 million and RUB 65 million, respectively. The carrying value of the sold shares was RUB 1,161 million and RUB 174 million, respectively. Also, the Group also acquired 0.23% interest in ownership in the Group's subsidiary for the consideration of RUB 20.9 million from third parties.

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Earnings (loss) per share (EPS)

Basic EPS is calculated by dividing the profit (loss) for the year attributable to common equity holders of the parent by the weighted average number of common shares outstanding during the year.

There were no dilutive securities issued as of December 31, 2020, 2019 and 2018.

The following table reflects the income and share data used in basic and diluted EPS calculations:

	2020	2019*	2018*
Earnings per share			
Weighted average number of common shares	412,589,910	416,256,510	416,270,745
Profit for the period Attributable to Equity shareholders of Mechel PAO, RUB million.....	808	2,409	12,628
Earnings per share (Russian rubles per share) attributable to common equity shareholders – basic and diluted	1.96	5.79	30.34
 (Loss) profit for the period from continuing operations, RUB million.....	 (40,153)	 11,075	 20,897
Less attributable to non-controlling interests, RUB million....	648	1,876	908
Profit for the period Attributable to Equity shareholders of Mechel PAO from continuing operations	(40,801)	9,199	19,989
(Loss) earnings per share from continuing operations (Russian rubles per share) – basic and diluted	(98.89)	22.10	48.02
 Profit (loss) after tax for the period from discontinued operations, RUB million	 41,609	 (6,790)	 (7,361)
Earnings (loss) per share from discontinued operations (Russian rubles per share) – basic and diluted	100.85	(16.31)	(17.68)

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

The total weighted-average number of common shares outstanding during the period was as follows:

	Shares outstanding	Fraction of period (days)	Weighted-average number of shares
2018			
Common shares: January 1 – December 31.....	416,270,745	365	416,270,745
Total weighted average shares outstanding during the period.....	416,270,745	365	416,270,745
 2019			
Common shares: January 1 – December 20.....	416,270,745	354	403,725,599
Common shares: December 20 – December 23.....	416,119,371	3	3,420,159
Common shares: December 23 – December 24.....	416,005,348	1	1,139,741
Common shares: December 24 – December 25.....	415,881,411	1	1,139,401
Common shares: December 25 – December 26.....	415,756,171	1	1,139,058
Common shares: December 26 – December 31	415,556,251	5	5,692,551
Common shares: December 31 – December 31	415,251,749	–	–
Total weighted average shares outstanding during the period.....	416,256,510	365	416,256,510
 2020			
Common shares: January 1 – September 29.....	415,251,749	273	309,736,960
Common shares: September 29 – December 31	404,776,126	93	102,852,950
Total weighted average shares outstanding during the period.....	412,589,910	366	412,589,910

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24. Other income/expenses

24.1 Administrative and other operating expenses

General, administrative and other operating expenses are comprised of the following:

	2020	2019*	2018*
Wages, salaries and social security costs.....	9,856	8,771	10,158
Provision for legal claims, net	2,463	96	828
Office and maintenance expenses.....	1,264	1,226	1,206
Depreciation	708	721	749
Audit and consulting services.....	527	546	927
Fines and penalties related to business contracts.....	501	539	370
Loss on write-off of non-current assets	454	979	931
Banking charges and services.....	335	328	243
Consumables	269	294	291
Social expenses	188	288	373
Expense relating to short-term leases (Note 10.2).....	68	83	153
Business trips	30	109	133
Write off of trade and other receivables	22	5	2
Other.....	1,752	1,583	1,968
Total.....	18,437	15,568	18,332

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Loss on write-off of non-current assets is represented by the write-down of certain property, plant and equipment items as no future economic benefits are expected from the use or disposal.

24.2 Employee benefits expense

Employee benefits expenses are comprised of the following:

	2020	2019*	2018*
Included in cost of sales			
Wages and salaries	21,235	21,020	19,580
Social security costs	7,005	6,877	6,332
Post-employment benefits	209	182	117
Included in selling and distribution expenses			
Wages and salaries	3,864	3,566	3,470
Social security costs	1,055	968	911
Included in administrative and other operating expenses			
Wages and salaries	7,853	6,939	8,193
Social security costs	2,003	1,832	1,965
Total.....	43,224	41,384	40,568

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

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24.3 Other operating income

Other operating income is comprised of the following:

	2020	2019*	2018*
Rental income.....	238	241	192
Subsidies received from the governmental authorities as a compensation for operating activities (energy tariffs).....	121	—	359
Income from fines and penalties related to business contracts	119	157	247
Subsidies received from the governmental authorities to compensate losses of European group companies.....	82	—	—
Curtailment and result of remeasurement of other long-term benefit obligations.....	62	25	93
Net result from disposal of non-current assets.....	42	31	128
Gain from sales of scrap materials	—	—	373
Other.....	335	234	290
Total	999	688	1,682

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

24.4 Finance income and finance costs

Finance income is comprised of the following:

	2020	2019*	2018*
Effect of restructuring of loans and leases.....	3,341	353	33,403
Interest income on other financial assets	119	179	206
Income from the discounting of financial instruments	44	58	16
Remeasurement of fair value of financial instruments	—	—	318
Total.....	3,504	590	33,943

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Effect of restructuring of loans in 2020 primarily relates to VTB (Note 10.1 (a)), in 2019, it mainly includes waiving of fines and penalties on leases with Gazprombank Leasing and Cat Financial, in 2018 it primarily relates to VTB and the refinancing of the pre-export credit facility.

Finance costs are comprised of the following:

	2020	2019*	2018*
Interest on loans and borrowings.....	22,090	31,231	35,049
Fines and penalties on overdue loans and borrowing payments and overdue interest payments.....	1,080	733	847
Interest expense on lease liabilities.....	1,047	1,217	917
Fines and penalties on overdue leases	157	49	10
Total finance costs related to loans, borrowings and leases	24,374	33,230	36,823
Unwinding of discount on rehabilitation provision	291	304	272
Interest expenses under pension liabilities.....	286	284	272
Expenses related to discounting of financial instruments.....	194	45	147
Total.....	25,145	33,863	37,514

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

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24.5 Other income and other expenses

Other income is comprised of the following:

	2020	2019*	2018*
Reversal of unclaimed declared dividends to non-controlling interest upon expiration of limitation period	203	–	–
Write-off of trade and other payables and lease liabilities including payables with expired legal term	177	155	412
Gain on sales and purchases of foreign currencies	50	–	–
Other income	288	73	86
Total.....	718	228	498

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Other expenses are comprised of the following:

	2020	2019*	2018*
Loss on sales and purchases of foreign currencies	–	148	108
Other non-operating expenses	259	335	238
Total.....	259	483	346

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Write-off of trade and other payables with expired legal term constitutes gain on the write-off of payable amounts that were written-off due to legal liquidation of the creditors or expiration of the statute of limitation.

25. Discontinued operations

In January 2020, the Group entered into negotiations relating to the sale of the Elga coal complex to a prospective buyer, a third party. On April 21, 2020, the Group received a consent required by the put option agreement⁴ from Gazprombank permitting the sale of the 51% share of the Elga coal complex to the buyer. Since that date, the Elga coal complex was accounted for as a disposal group held for sale.

On April 21, 2020, the Group signed a sale and purchase agreement with the buyer for the sale of the Elga coal complex for the consideration of RUB 89 billion. From that date, the Group lost control over the Elga coal complex. The deal on disposal was completed on April 30, 2020 upon the legal transfer of ownership. This transaction resulted in a pre-tax gain of RUB 45,580 million.

	April 21, 2020
Consideration paid by the buyer	89,000
Derecognition of put option from Gazprombank	49,418
Net assets disposed of	(92,838)
Gain on sale of discontinued operations	45,580

The Elga coal complex represented one of the separate major lines of the Group's business that operated in Sakha Republic (Yakutia) in Far East and it was classified as a discontinued operation due to significant contribution to the Group's pretax loss, financing and investing cash flows.

⁴ In June 2016, the put option agreement was signed granting put option to Gazprombank to sell the stake (in full or in part) in the Elga coal complex to the Group within three years following a five-year grace period or in case of a breach of conditions stipulated by such agreement. Gazprombank held 49% in the Elga coal complex. Put option agreement allowed the Group to retain control over 100% of shares and therefore obligations under the put option was recognised as non-current financial liability.

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As a result of the Elga coal complex being classified as discontinued operation, the comparative amounts in these consolidated financial statements have been adjusted accordingly. The results of the Elga coal complex presented as discontinued operations in the consolidated statements of profit (loss) and other comprehensive income were as follows:

	Year ended December 31,		
	2020*	2019	2018
Revenue.....	2,142	9,414	8,778
Expenses.....	(3,010)	(12,115)	(9,985)
Finance costs.....	(1,708)	(4,967)	(4,538)
Foreign exchange (loss) gain, net.....	(1,377)	952	(1,588)
Loss before tax from discontinued operations	(3,953)	(6,716)	(7,333)
Income tax expense	(18)	(74)	(28)
Loss after tax from discontinued operations	(3,971)	(6,790)	(7,361)
Gain on sale of discontinued operations.....	45,580	—	—
Income tax expense related to sale transaction.....	—	—	—
Net gain on sale of discontinued operations	45,580	—	—
Profit (loss) after tax for the period from discontinued operations	41,609	(6,790)	(7,361)

* Represents operations for the period of January 1 – April 21, 2020.

The sales of coking and steam coal to the third parties were included in the results of discontinued operations and coal used in production of coke and steel was included in the continuing operations. Finance costs from discontinued operations include remeasurement of non-current obligation related to put option of Gazprombank granted on non-controlling interests in the Elga coal complex in the amount of RUB 1,217 million, RUB 4,145 million and RUB 3,796 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The major classes of assets and liabilities of the Elga coal complex classified as a disposal group as of the disposal date were as follows:

Assets	April 21, 2020
Non-current assets	
Property, plant and equipment	95,411
Right-of-use assets	1,647
Mineral licenses.....	11,696
Other non-current assets.....	7
Total non-current assets	108,761
Current assets	
Inventories.....	928
Income tax receivables	8
Trade and other receivables.....	3,060
Other current assets	248
Cash and cash equivalents.....	21
Total current assets	4,265
Total assets	113,026

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Liabilities	April 21, 2020
Non-current liabilities	
Lease liabilities.....	565
Pension obligations	110
Provisions.....	940
Deferred tax liabilities.....	6,567
Total non-current liabilities	8,182
Current liabilities	
Loans and borrowings, including interest payable	8,031
Trade and other payables.....	1,930
Lease liabilities.....	883
Taxes and similar charges payable other than income tax.....	1,075
Advances received and other current liabilities	2
Pension obligations	24
Provisions.....	61
Total current liabilities	12,006
Total liabilities	20,188
Net assets	92,838

Other non-current financial liabilities of RUB 49,418 million under the put option of Gazprombank were derecognised upon the Elga coal complex disposal.

The net cash flows from discontinued operations of the Elga coal complex were, as follows:

	Year ended December 31,		
	2020*	2019	2018
Operating.....	1,102	2,668	4,541
Investing.....	(182)	(867)	(1,438)
Financing.....	(906)	(1,800)	(3,305)
Net cash inflow (outflow)	14	1	(202)

* Represents operations for the period of January 1 – April 21, 2020.

26. Segment information

The Group's operations are presented in three operating segments as follows:

- Steel segment, comprising production and sales of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, value-added downstream metal products, including forgings, stampings, hardware, rails, barks and ferrosilicon;
- Mining segment, comprising production and sales of coal (coking and steam) and middlings, coke and chemical products, and iron ore concentrate, which supplies raw materials to the Steel and Power segments and also sells substantial amounts of raw materials to third parties. The Elga coal complex included in mining segment was recognised as discontinued operation in 2020 (Note 25);
- Power segment, comprising generation and sales of electricity and heat power, which supplies electricity and heat power to the Steel and Mining segments and also sells a portion of electricity and heat power to third parties.

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The above three segments meet criteria for reportable segments. No operating segments have been aggregated to form the above reportable operating segments. Subsidiaries are consolidated by the segment to which they belong based on their products and by which they are managed. The Group's management evaluates performance of the segments based on segment revenues, gross margin, operating profit (loss), assets and liabilities. Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Income tax, deferred tax related to the consolidated group of taxpayers and certain other assets and liabilities are not allocated to those segments as they are managed on the group basis.

As of December 31, 2020 and for the year then ended	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers.....	70,881	166,885	27,688	—	265,454
Inter-segment revenue	34,402	6,626	15,769	(56,797)	—
Gross profit.....	51,441	30,030	14,089	(711)	94,849
Gross margin, %	48.9	17.3	32.4	—	35.7
Depreciation and amortisation.....	(7,463)	(6,335)	(488)	—	(14,286)
Impairment of goodwill and other non-current assets, net	(3,829)	(67)	(1)	—	(3,897)
Operating profit (loss)	14,108	6,520	(308)	(395)	19,925
Share of profit of associates, net.....	20	—	—	—	20
Finance income	502	3,000	2	—	3,504
Intersegment finance income.....	1,786	306	21	(2,113)	—
Finance costs	(12,209)	(12,678)	(258)	—	(25,145)
Intersegment finance costs	(199)	(1,725)	(189)	2,113	—
Income tax benefit (expense).....	149	(676)	34	(2,035)	(2,528)
Profit after tax for the period from discontinued operations.....	41,651	—	—	(42)	41,609
Profit (loss) for the period	38,854	(34,166)	(760)	(2,472)	1,456
Segment assets.....	83,178	102,759	8,875	(972)	193,840
Segment liabilities	160,866	250,356	11,188	2,101	424,511
Investments in associates.....	341	—	—	—	341

As of December 31, 2019 and for the year then ended	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers*	83,517	174,850	28,786	—	287,153
Inter-segment revenue*	37,710	6,068	15,541	(59,319)	—
Gross profit*	63,680	27,486	13,058	(157)	104,067
Gross margin, %*	52.5	15.2	29.5	—	36.2
Depreciation and amortisation*	(6,774)	(6,153)	(482)	—	(13,409)
Impairment of goodwill and other non-current assets, net	(3,688)	1,884	—	—	(1,804)
Operating profit (loss)*	26,775	7,087	1,416	(1,078)	34,200
Share of profit of associates, net.....	28	—	—	—	28
Finance income*	514	75	1	—	590
Intersegment finance income.....	386	375	30	(791)	—
Finance costs*	(18,967)	(14,514)	(382)	—	(33,863)
Intersegment finance costs	(195)	(325)	(271)	791	—
Income tax expense*	(20)	(503)	(333)	(7,057)	(7,913)
(Loss) profit after tax for the period from discontinued operations	(6,962)	39	133	—	(6,790)
Profit (loss) for the period	4,955	6,934	531	(8,135)	4,285
Segment assets.....	202,423	100,493	7,610	1,979	312,505
Segment liabilities	300,058	233,279	9,432	3,333	546,102
Investments in associates.....	321	—	—	—	321

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As of December 31, 2018 and for the year then ended	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers*	88,104	187,918	27,773	—	303,795
Inter-segment revenue*	37,549	5,847	15,471	(58,867)	—
Gross profit*	72,269	44,415	12,438	615	129,737
Gross margin, %*	57.5	22.9	28.8	—	42.7
Depreciation and amortisation*	(5,978)	(5,738)	(500)	—	(12,216)
Impairment of goodwill and other non-current assets, net	(3,684)	(819)	(2,719)	—	(7,222)
Operating profit (loss)*	34,091	19,814	(3,374)	615	51,146
Share of profit of associates, net	10	—	—	—	10
Finance income*	23,274	9,478	1,191	—	33,943
Intersegment finance income	1,071	395	41	(1,507)	—
Finance costs*	(24,394)	(12,810)	(310)	—	(37,514)
Intersegment finance costs	(220)	(1,015)	(272)	1,507	—
Income tax (expense) benefit*	(5,912)	531	83	2,645	(2,653)
(Loss) profit after tax for the period from discontinued operations	(7,512)	18	133	—	(7,361)
Profit (loss) for the period	11,489	1,331	(2,544)	3,260	13,536
Segment assets	208,123	97,373	7,519	4,610	317,625
Segment liabilities	296,125	247,241	9,469	(2,015)	550,820
Investments in associates	293	—	—	—	293

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

Depreciation and amortisation are included in cost of sales in the amount of RUB 9,880 million (2019: RUB 9,975 million, 2018: RUB 10,343 million), in the selling and distribution expenses in the amount of RUB 3,698 million (2019: RUB 2,714 million, 2018: RUB 1,123 million) and in the administrative and other operating expenses in the amount of RUB 708 million (2019: RUB 720 million, 2018: RUB 750 million).

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

	2020	2019*	2018*
Domestic			
Russia	156,584	170,851	178,762
Other	28,491	28,469	29,665
Total	185,075	199,320	208,427
Export	80,379	87,833	95,368
Total revenue	265,454	287,153	303,795

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

The advances received represented contract liabilities to perform obligations under the contracts with customers. The revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was RUB 4,861 million, RUB 4,306 and RUB 3,670 million for the years ended December 31, 2020, 2019 and 2018, respectively.

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

	2020	2019*	2018*
Russia*	156,712	170,980	178,879
Asia*	45,284	54,137	53,179
Europe	35,536	38,334	44,263
CIS	23,749	21,465	23,877
Middle East	3,794	1,983	3,130
USA	102	155	258
Other regions	277	99	209
Total	265,454	287,153	303,795

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

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The majority of the Group's non-current assets are located in Russia. The carrying amounts of mineral licenses, property, plant and equipment and right-of-use assets pertaining to the Group's major operations were as follows:

	December 31, 2020	December 31, 2019
Russia.....	109,954	225,755
Germany.....	1,446	1,225
Austria.....	820	677
Czech Republic.....	247	237
Other.....	176	173
Total.....	112,643	228,067

Because of the significant number of customers, there are no individual external customers that generate sales greater than 10% of the Group's consolidated total revenue from contracts with customers. The following table presents the breakdown of the Group's revenues from contracts with external customers by major products:

	2020	2019*	2018*
Mining segment			
Coal and middlings*.....	54,324	62,518	71,305
Coke and chemical products.....	14,783	17,970	14,205
Iron ore concentrate.....	413	1,179	839
Other*.....	1,361	1,850	1,755
Total.....	70,881	83,517	88,104
Steel segment			
Long steel products.....	98,908	97,692	105,722
Hardware.....	25,971	27,086	30,040
Flat steel products.....	23,056	23,371	22,786
Forgings and stampings.....	8,451	14,818	15,848
Ferrosilicon.....	3,159	3,229	3,927
Steel pipes.....	3,380	3,281	3,230
Semi-finished steel products.....	181	137	54
Other.....	3,779	5,236	6,311
Total.....	166,885	174,850	187,918
Power segment			
Electricity*.....	26,306	27,030	26,009
Other*.....	1,382	1,756	1,764
Total.....	27,688	28,786	27,773
Total revenue.....	265,454	287,153	303,795

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation (Note 25).

27. Events after the reporting period

The Group evaluated subsequent events from December 31, 2020 through the date the consolidated financial statements were issued and concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements other than discussed below and disclosed in Note 10.1 and Note 22.

In January 2021, the Group signed an environmental agreement, according to which the Group undertook additional commitments in amount of RUB 2,856 million to reduce emissions of air pollutants until 2026.

On February 3, 2021, the U.S. dollar-denominated loan from VTB in the amount of \$250 million agreed in April 2020 was received and used for the full repayment of the U.S. dollar-denominated VTB credit facilities of SKCC (Note 10.1 (a)).

Chief Executive Officer of Mechel PAO

Oleg V. Kozhlov

March 11, 2021

