

APPROVED

On May 31th 2018 by resolution of the Board of
Directors of Mechel, Public Joint Stock Company

(minutes of the Board of Directors of Mechel PAO
No. w/o number dd. May 31st 2018)

ANNUAL REPORT
OF PUBLIC JOINT STOCK COMPANY
MECHEL

BASED ON THE RESULTS OF 2017

Chief Financial Officer

(signature)

Nelli R. Galeeva

Moscow,
2018

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CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER'S ADDRESS

Dear shareholders!

For us, the year 2017 was a year of financial stabilization after the three years of recession. Taking advantage of this situation, we have concentrated our efforts on revising and updating our production management system, reducing operating costs and improving our business efficiency in general, despite the debt burden. We also continued to negotiate with the banks for the restructuring of our loan portfolio, and the result of this work was the approval of the terms of restructuring by the syndicate of foreign banks at the end of last year. The task we set for ourselves in 2018 is to complete the process of restructuring our loan portfolio.

The year 2017 finished for the Group "Mechel" with financial results far superior to the results of 2016. Consolidated revenue by IFRS increased by 8% and amounted to 299 billion rubles, EBITDA increased by 23% and amounted to 81 billion rubles, net profit attributable to the shareholders of Mechel, increased by 62% to 11.6 billion rubles. Throughout the year 2017, the company fulfilled all its restructured financial obligations to creditor banks.

A significant impact on the improvement of our financial results was made by the favorable situation at the market of metallurgical coals. The average contract price for quarterly agreements on premium hard coking coal was about \$210 per ton on FOB Australia basis, which is 84% higher than in the previous year.

The volume of coal production in 2017 amounted to 20.7 million tons – 9% lower than in 2016. The reason for this decline was insufficient funding of stripping and repair works in the period from 2014 to 2016. In 2017, we launched a large-scale program of mining machinery modernization and equipment renewal to recover the volume of production. Mechel-Mining enterprises received more than a hundred units of new machines and devices. We expect the positive dynamics of this great work to be reflected in financial and production indicators of the company beginning from the second half of 2018.

The situation at the steel market in the second half of 2017 was remarkably different from the situation on the first half of the year. The beginning of the year has been marked with high cost of production because of the price jump for coal and iron ore aggravated by a weak demand and low prices for many of our products. The situation only improved in the second half of 2017. The volume of production in the metallurgy division of Mechel in 2017 was stable. Acting within the framework of our long-term strategy and basing on market trends, we changed our product line. We have significantly increased the production of products with high added value (shaped, rail and flat rolled products, forgings and stampings, special steel grade products, high-alloy and stainless steel grade hardware products) at the main enterprises of the division.

We continue to increase the load of the universal rail and block mill of the Chelyabinsk metallurgical plant, and develop new standard sizes of beams and rails. About 60 profiles of products of high demand in the market are already produced at the universal rail and block mill. The share of

the construction beam produced by the universal rail and block mill at the Russian market is already about 30%. In 2016-2017, the company supplied about 600 thousand tons of rail products for the reconstruction of the Russian railways. In 2017, the CMP began issuing a new corrugated beam on a robotic line. With the development of the corrugated beam production, the plant is now a manufacturer of all types of beam profiles which are available at the Russian market.

In 2018, we will focus our efforts on improving the profitability of the main types of business and getting the maximum return on our main investment projects with an increase in our production volumes. We plan to participate in all major infrastructure projects in our country – in particular, in the construction of the high-speed highway Ekaterinburg – Chelyabinsk. We also intend to increase exports of the universal rail and block mill products to the EU. At the end of 2018, we are going to launch a production line for multi-row steel ropes, including those with a polymer coating at the Beloretsk metallurgical plant. This is an import-substituting project implemented by us with the support of the Russian Industry Development Fund. In general, Mechel will continue to transform its product line in order to increase the share of metal products with high added value in the structure of sales.

The implementation of the company's strategy will help to develop Mechel's potential, strengthen shareholders' and investors' trust in our common success, and, ultimately, will lead to an increase in the company's capitalization.

On behalf of the Board of Directors and the Management Board of the company we thank you for your trust, support and cooperation!

Chairman of the Board of Directors I.V. Zyuzin

Chief Executive Officer O.V. Korzhov

1. General information about the Company

1.1. Name

Full name Public Joint Stock Company "Mechel" (also "Company" or "Mechel")

Short name in Russian: ПАО «Мечел».

Short name in English: Mechel PAO.

1.2. Contact information

Company's location: Moscow, Russian Federation

Company's address indicated in the Unified state register of legal entities:
1 Krasnoarmeiskaya Street, Moscow, 125167, Russian Federation

Mail address: 1 Krasnoarmeiskaya Street, Moscow, 125167, Russian Federation

Phone number: +7 (495) 221-88-88.

Internet pages where the information about the company is available:
<http://www.mechel.ru/>; <http://www.e-disclosure.ru/portal/company.aspx?id=1942>.

E-mail address: mechel@mechel.com.

1.3. Details on the state registration

Mechel PAO is a joint stock company established under the laws of the Russian Federation. The Company has been registered on the 19th March, 2003 in the Russian Federation by the Interdistrict inspection of the Federal tax service No. 46 in the city of Moscow under the main state registration number 1037703012896 (Certificate of state registration of a legal entity blank series 77 No. 011726883). Since its foundation from March 19, 2003 to August 19, 2005 the official name of the Company was Mechel Steel Group Joint Stock Company (or Mechel Steel Group JSC).

Mechel PAO has been given Individual taxpayer's number No. 7703370008 and Code of reason for registration No. 771401001 (Certificate of registration of a russian organization in a local tax office in the Russian Federation blank series 77 No. 017744898).

Articles of association (current version) has been approved on the 30th June 2017 by the decision of the Annual general meeting of shareholders (Minutes No. 1 dated 30th June 2017) and registered by the Interdistrict inspection of the Federal tax service No. 46 in the city of Moscow on 14th July 2107 under the state registration number 8177747645188.

1.4. Authorized company and shares

According to the current version of the Articles of association of the Company, its authorized capital amounts to 550,276,600 (five hundred fifty million two hundred seventy six thousand and sixty) rubles.

Authorized capital of the Company consists of the nominal value of the shares bought by the shareholders.

The current number of the Company's shares is 555,027,660, of which:

– 416,270,745 (four hundred sixteen million two hundred seventy thousand seven hundred forty five) shares are ordinary registered uncertified shares with par value of RUB 10 (ten) each.

State registration number of the securities issue: 1-01-55005-E dated 29.04.2003.

– One hundred thirty eight million seven hundred fifty six thousand nine hundred fifteen (138,756,915) privileged nominal uncertified shares par value of ten (10) rubles per share.

State registration number of the securities issue: 2-01-55005-E dated 05.06.2008.

1.5. Principal shareholders of the Company

Principal shareholders of Mechel PAO (having a participation interest in the authorized capital of more than 5%) are as follows:

Full company name: ***SKYBLOCK LIMITED***

Abbreviated company name: ***NA***

Location: ***3 Julia House, Femistokli Dervi, Nicosia, Cyprus 1066***

Participation interest in the authorized capital of the Company: ***10%***

Percent of the Company's ordinary shares owned by the person: ***0%***

Full company name: ***MetHall Limited Liability Company***

Abbreviated company name: ***MetHall LLC***

Location: ***1 Krasnoarmeiskaya, Moscow, Russian Federation, 125167***

INN: ***7705378683***

OGRN: ***1037739555831***

Participation interest in the authorized capital of the Company: ***14.02%***

Percent of the Company's ordinary shares owned by the person: ***18.7%***

Full name: ***Igor Vladimrovich Zyuzin***

Participation interest in the authorized capital of the Company: ***16.16%***

Percent of the Company's ordinary shares owned by the person: ***21.54%***

I.V. Zyuzin, Chairman of the Board of Directors of Mechel PAO, with regard of direct and indirect ownership together with his family members, owns 50.10% of the total number of ordinary shares of the Company.

1.6. Registrar

The share register of the Company is maintained by the professional member of the security market– Independent Registrar Company Joint-Stock Company (Independent Registrar Company JSC).

It has Share Register License No. 045-13954-000001 issued by the Bank of Russia without limitation of the period of validity.

It is a member of the Professional Association of Registrars, Transfer Agents and Depositories, the Russian Union of Industrialists and Entrepreneurs, Saint Petersburg Chamber of Commerce and Industry, the Association of Regional Banks of Russia and a member of the Transfer Agent and Registrars System.

Address: 18 Stromynka Street, Building 5B, Moscow, 107076

Location: 18 Stromynka Street, Building 5B, Premises IX, Moscow, 107076

Web-page address: <http://nrcreg.ru/>.

1.7. Auditor

For the purpose of independent evaluation of accounting (financial) statements under the Russian Accounting Standards, Mechel PAO attracts annually an external auditor for statements auditing.

The Company's auditor is Energy Consulting JSC, State Registration Number 1047717034640, located at: 15A Leninsky Prospekt, Office 1129, Moscow, Russia, 119011, a member of the self-regulatory organization of auditors – Sodruzhestvo Association, Primary Registration Number 11606069294.

For 2017, the audit of consolidated financial statements of Mechel under the IFRS was carried out by Ernst & Young Limited Liability Company (Ernst & Young LLC).

Location: 77 Sadovnicheskaya Naberezhnaya, Building 1, Moscow, Russia.

1.8. Information on subsidiaries/affiliates. Information on the Company's securities quotations

Mechel PAO was founded in 2003 on the basis of production capacities in the mining and metallurgical sectors. Today Mechel PAO is one of the leading companies in Russia. The Company constitutes a vertically integrated Group that unites the producers of coal, iron ore, steel, rolled metal, ferrosilicium, heating and electric energy. In addition, the Company owns a logistics company and transport operator. The Group's own distributive structures sell its products in the Russian market, in the CIS, Europe, Asia, the Far East and America. All enterprises of the Group work in a single production chain: from raw materials to products with high added value. The Group's products are distributed in the Russian and foreign markets and are raw materials for the products with high added value produced by Mechel.

Mechel Group is one of the largest Russian producers of coking coal and one of the largest producers of coal for the metallurgical industry in the world. Being one of the largest producers of coking coal in Russia, the Group has an interest of 17% of the total market of coking coal production in Russia. In 2017 the total coal mining was 20.6 million tons, including coking coal mining of 14.3 million tons.

Mechel Group is the largest producer of special kinds of steel and alloy in the country, which produces the most wide range of these products. Mechel has the second place for bar iron output in Russia. Also, Mechel is the largest producer of reinforcement bars and wire rod in Russia.

According to the IFRS, in 2017 the consolidated proceeds of the Company were 299.1 billion rubles. For 2017, the profit due to the shareholders of Mechel PAO was 11.6 billion rubles, the consolidated adjusted EBITDA was 81.1 billion rubles.

According to the Russian Accounting Standards, for 2017, the consolidated proceeds were 6.0 billion rubles, the net loss was 15.2 billion rubles, the operating profit (sales profit) was 1.5 billion rubles.

Mechel PAO is one of the leading international companies in the mining and metallurgical industries. The Company includes production facilities in 11 regions of Russia and in Lithuania.

Mining Segment

The mining enterprises of Mechel PAO produce and sell iron-ore concentrate, coking coal concentrate, anthracite coal, PCI and coke which are the main kinds of raw materials for steel production, as well as produce and sell power generating coal and middling products. The mining

segment products are sold to outside consumers in Russia and abroad and are used to meet the internal needs of the metallurgical and energy sectors of the Group.

Mechel Group is the second largest producer of coking coal in Russia according to the data of the Central Dispatching Department of the Fuel and Energy Complex for 2017.

As of December 31, 2017, in accordance with the JORC standards, the licensed coal reserves are 3.0 billion tons, where coking coal is 76%.

Mechel Mining OOO, a subsidiary, unites mining and coke chemical assets of Mechel Group represented by such enterprises as Southern Kuzbass PAO, Yakutugol Holding Company AO, Elgaugol OOO, Korshunov Mining Plant PAO,

Moscow Coke and Gas Plant AO and Mechel-Coke OOO. The functions of the sole executive body of coal and iron ore production companies and coke producers are performed by Mechel Mining Management Company OOO, a wholly owned subsidiary of Mechel Mining OOO.

Southern Kuzbass Public Joint-Stock Company (Mezhdurechensk, Kemerovo Region) is one of the largest Russian producers of coking and power generating coal. The mining assets of Southern Kuzbass PAO include four open-pit mines: Krasnogorsky Open-Pit Mine, Sibirginsky Open-Pit Mine, Olzherassky Open-Pit Mine, Tomusinsky Open-Pit Mine, and three mines: Olzherasskaya Novaya Mine, Mine named after V.I. Lenin and Sibirginskaya Mine. The processing assets of Southern Kuzbass PAO include four concentrating plants: Sibir Central Concentrating Plant, Kuzbasskaya Central Concentrating Plant, Krasnogorskaya Concentrating Plant, Tomusinskaya Ore Mining and Processing Plant, as well as Sibirginskaya Concentrating Plant. Southern Kuzbass has sufficient reserves of coking coal and power generating coal which provide stable long-term operation of open-pit mines and mines. The total estimated capacity of the concentrating plants of Southern Kuzbass PAO is about 17.2 million tons of run-of-mine coal per year. As of December 31, 2017, according to the JORC standards, the total volume of mineral reserves of Southern Kuzbass PAO is 547 million tons. As of year-end 2017, the facilities of Southern Kuzbass mined 16.4 million tons of run-of-mine coal.

Yakutugol Holding Company Joint-Stock Company (Neryungi, Republic of Sakha (Yakutiya)). The company assets include three open-pit mines: Neryungrinsky Open-Pit Mine, Kangalassky Open-Pit Mine, Gebariki Khaya Open-Pit Mine and Neryunginskaya Concentrating Plant. Yakutugol Holding Company also holds the licenses for the development of Pionerskoye, Sivaglinskoye and Sutamskoye iron-ore deposits. Yakutugol is one of few producers of hard coking coal in Russia. Primarily, it is high-quality coal of the valuable K mark. The products of Yakutugol is in high demand both in the domestic and foreign markets. The coking coal concentrate is supplied to metallurgical and coke-chemical enterprises of Central Russia and exported to the Asia-Pacific Region. As of December 31, 2017, according to the JORC standards, the total volume of mineral reserves is 190 million tons. At year-end 2017, it was mined 8.3 million tons of run-of-mine coal.

Korshunov Mining Plant Public Joint-Stock Company (Zheleznogorsk-Ilimsky, Irkutsk Region) is one of the largest iron-ore mining enterprises in Russia and the only one acting in the East Siberian Region. The assets of Korshunov Mining Plant include two open-pit mines: Korshunovsky Open-Pit Mine and Rudnogorsky Open-Pit Mine, as well as Korshunovsky Concentrating Plant. As of December 31, 2017, according to the JORC standards, the total volume of mineral reserves of Korshunov Mining Plant is 146.6 million tons. Korshunov Mining Plant holds a license of Rosnedry for development of Korshunovsky Iron-Ore Deposit to the mark of "minus 840 meters". According to the new license, Its mineral reserves are 500 million tons. At year-end 2017, it mined 8.0 million tons of iron-ore raw materials and produced 2.5 million tons of iron-ore concentrate.

Currently, **Elgaugol Limited Liability Company** implements a large-scale project for exploration and development of Elga Coal Complex. Elga is one of the world's largest deposits of

high-quality coking coal. As of December 31, 2017, according to the JORC standards, its licensed reserves are about 2.2 billion tons where the coking coal reserves are 86%. Development of Elga Deposit of coking coal is the priority strategic project of Mechel Group that will allow the company to increase the volume of coal export to the markets of the Asia-Pacific Region. The deposit is located in the south-eastern part of Yakutia, 415 km to the east from Neryungi and 320 km to the north from Verkhnezeysk, in the central part of Tokinsky Coal Region. The production works at the first stage section of Elga Open-Pit Mine development were commenced in August 2011. In the same year through traffic at the 321 kilometer railway line built by Mechel uniting the deposit with Baykal-Amur Mainline was opened. A year-round concentrating plant with a capacity of 2.7 million tons was established in Elga Deposit. As of year-end 2017, the facilities of Elga Coal Deposit mined 4.2 million tons of run-of-mine coal.

The mining segment also includes two coke production enterprises: **Moscow Coke** located in Vidnoye, the Moscow Region, and **Mechel-Coke OOO** located in Chelyabinsk. Coke is produced for both internal use and sale to third parties.

Moscow Coke Gas Plant (Vidnoye, Moscow Region) has a favorable geographical location and stable sales markets. The enterprise produces coke, benzene and coal tar. The coking chemical production of the enterprise is successfully sold in the domestic market, basically, to the enterprises located in Central Russia, and exported. Currently, the total production capacity of four coke batteries is 0.6 million tons of bulk coke per year with the moisture of 6%.

Chelyabinsk Plant for Coke Chemical Products Limited Liability Company (Mechel Coke LLC, Chelyabinsk) is an enterprise that produces coke chemical products. The main product is metallurgical coke currently produced at eight coke-oven batteries with the aggregate annual capacity of 2.8 million tons. Mechel-Coke OOO provides the production needs of the enterprises of Mechel and sells its products in the domestic and foreign markets. The produced coke is characterized by high quality: uniform humidity and strength, low content of ash and sulfur, low output of volatile substances. 19 types of chemical products are produced from coke gas, the byproduct, at the shops of Mechel-Coke: benzene, toluene, solvent, naphthalene, ammonia sulfate, resins and other products. They are used to produce plastic masses, synthetic fibres, medicine, perfume and organic synthesis products both in Russia and abroad.

Metallurgical Segment

The activities of Mechel in the metallurgical segment includes production of billets and slabs, rolled sections and sheet products from carbon, alloyed and stainless steel, as well as metal products with high added value, including metalware, stamping and forging, as well as blanking. The metallurgical segment of Mechel includes the enterprises in Russia and Lithuania.

According to the data of Metal Expert, Mechel Group takes the second place in terms of rolled section and fitting output and the fourth place in terms of production of special kinds of steel and alloy in Russia. In addition, according to the data of Metal Expert, Mechel Group takes the fourth place in terms of ferrosilicium production.

In terms of steel casting, the production capacities of Mechel PAO in Russia include two steel casting enterprises – Chelyabinsk Metallurgical Plant and Izhstal Plant. The Company also includes the metalware producing enterprise – Beloretsk Metallurgical Plant, the stamping and forging production plant – Urals Stampings Plant, the metalware producing plant – Vyartsilya Metalware Plant, and Mechel Nemunas in Lithuania. After liquidation of the Ferroalloy Segment in 2014, the Steel Segment included Bratsk Ferroalloy Plant in Bratsk. The Mechel Group also includes the world-

famous Kasli plant of architectural and artistic casting, one of the oldest factories in Russia preserving centuries-old traditions of artistic casting and architectural iron castings. Enterprises of the Mechel metallurgical segment are controlled by a subsidiary company, MC Mechel-Stal LLC.

Chelyabinsk Metallurgical Plant Public Joint-Stock Company (Chelyabinsk) is one of the largest in Russia full-cycle metallurgical plants producing high-quality steel. CMP produces a wide range of metallurgical products: pig iron, steel semi-products for further conversion, rolled sections and sheet products from carbon, structural, tool and corrosion-resistant steel grades, as well as rail products. The universal structural mill (USM) was commissioned at CMP in July 2013. USM is the first Russian comprehensive universal production of high-quality profiled bars and rails with length from 12.5 to 100 meters. The rails produced by the USM surpass world analogues by a number of main indicators based on climatic and other conditions of rails operation in Russia, namely, low temperature reliability, increased wear resistance and contact endurance. Capacity of USM amounts to up to 1.1 million tons of finished products per year. In June 2015, the company received a certificate of compliance with the requirements of the Technical Regulations of the Customs Union for rails up to 100 meters. This Certificate allows the company to supply the products of the Chelyabinsk Metallurgical Plant to JSC Russian Railways. In 2017, the Chelyabinsk Metallurgical Plant mastered a new technology for the production of large-tonnage ingots with a mass of 50 tons from special steel grades, which will allow CMP to enter a new segment of the market for oversized products and to supply those products both to the domestic market and for export. In 2017, Chelyabinsk Metallurgical Plant produced 4.0 million tons of crude steel and 3.6 million of steel rolled products, of which 359,000 tons were rail products.

Izhstal Open Joint Stock Company (Izhevsk, the Udmurt Republic) – the largest metallurgical enterprise of Udmurtiya, one of the most significant economic entities in the Republic. The enterprise occupies the leading positions among Russian producers of special steel grades and stainless rolled sections, and makes graded, calibrated and turned rolled products, cold-rolled strip, high-precision shaped steel profiles of structural, tool, high-speed, stainless steel grades. The consumers of Izhstal PAO products are the enterprises of defense complex and high-tech mechanical engineering, automotive, aviation, oil, mining industries, tool factories. The enterprise products are shipped to USA, EU and CIS countries. In 2017 the enterprise produced 252 thousand tons of crude steel and 436 thousand rolled steel products.

Beloretsk Metallurgical Plant Joint Stock Company (Beloretsk, the Republic of Bashkortostan) is one of the main metalware producers in Russia. The range of the produced items includes wire rod and steel wire from quality steel grades – carbon, alloyed and stainless, steel ropes of various structures without coating and galvanized, tape of various sizes and sections, nails, and it is the only Russian enterprise producing microwire with diameter of up to 0.009 mm. The products of Beloretsk Metallurgical Plant are demanded by almost all industries: fuel and power industry, mechanical engineering, construction, as well as by the defense industrial complex. Today BMK is implementing a new investment project for the production of import-substituting products - multi-strand ropes with a number of strands from 6 to 12 and a diameter of 22 to 90 mm, including those with a polymer coating. In 2017, BMP produced 439 thousand tonnes of metalware products.

Urals Stampings Plant Public Joint Stock Company (Chebarkul, the Chelyabinsk Region) – the largest Russian producer of stamped products from special steel and alloys. The unique forging and stamping production on the basis of heavy and super heavy units, whose fundamental equipment is stamping hammers with the mass of falling parts from 2 to 25 tons, as well as the world's largest hammer without an anvil block with impact energy of 150 ton forces, allow the production of stamping weighing up to 2.5 tons and of up to 4 meters in length. Russia's first facility for production of large wrought rings is designed for production parts weighing up to 2 tons and of up to 4 meters in diameter. Urals Stampings Plant produces stamping for almost all mechanical engineering industries: missile engineering and space industry; aircraft engineering, heavy, transport, power, oil and gas

engineering; production of lifting and transport vehicles, chemical, food, ore mining and many other industries. In 2017 Urals Stampings Plant PJSC produced 135 thousand tons of stampings and forgings from special steels.

Vyartsilya Metal Products Plant Joint Stock Company (Village of Vyartsilya, the Republic of Karelia) produces metal products, including low carbon, electrode and structural wire, galvanized nails and steel mesh with polymer coating from the wire rod supplied by Chelyabinsk Metallurgical Plant. Currently, the plant is the only producer of hot galvanized nails in the country. In 2017 Vyartsilya Metal Products Plant JSC produced 67.4 thousand tons of metalware products.

Mechel Nemunas ZAO (Kaunas, Lithuania) – metalware enterprise producing wire, steel fiber designed for reinforcement of cement mixture and concrete, nails, including for the Europallets, and mesh. Its consumers are, first of all, mechanical engineering, construction and furniture enterprises. Main production capacities of Mechel Nemunas plant include wiredrawing mills, nail and thread machines, mesh weaving machinery. The products of Mechel Nemunas are widely demanded not only in the Baltic states, but also within the EU market. In 2017, Mechel Nemunas ZAO produced 67.7 thousand tonnes of metalware products.

Bratsk Ferroalloy Plant Limited Liability Company (Bratsk, the Irkutsk Region) – modern and highly efficient enterprise producing high-grade ferrosilicium (with 65% and 75% silicon content). The enterprise is gradually switching to metal melting from quartzites of own Uvatskoye deposit. The products have an international quality certificate. The plant has a favorable geographical location and stable sales markets. The enterprise products are supplied to the plants of Mechel Group and it is also sold at the domestic and foreign markets. In 2017 Bratsk Ferroalloy Plant LLC produced 68.6 thousand tons of ferrosilicon with 65% and 75% silicon content.

Power segment

Mechel's power segment generates electricity, heat and other types of energy for the needs of Mechel production companies, sells surplus energy resources in the free market, supplies electricity from the wholesale electricity (capacity) market, and provides heating energy to a number of cities.

The power segment of the Group is represented by the thermal power plant Southern Kuzbass Power Plant and the power sales company Kuzbass Energy Sales. All power assets are managed by Mechel-Energo LLC.

Southern Kuzbass Power Plant Public Joint Stock Company (Kaltan, the Kemerovo Region) – heat power plant in Kaltan, the Kemerovo Region is designed to cover the base loads of Kuzbass power system. The installed electric capacity of Southern Kuzbass Power Plant is 554 MW. Southern Kuzbass Power Plant provides hot water for heating and hot water supply in Kaltan and Osinniki, the Kemerovo Region. The installed heat capacity of the enterprise is 506 Gcal/hour. Coal for Southern Kuzbass Power Plant is supplied from Southern Kuzbass PAO.

Kuzbass Energy Sales Open Joint Stock Company (Kemerovo) is one of the largest power sales companies in the Kemerovo Region operating in the status of a guarantee supplier. The number of consumers serviced by Kuzbassenergosbyt PJSC currently exceeds 90% of consumers of the region, including industrial enterprises, budget institutions, utility facilities and social spheres, small business enterprises, agricultural enterprises, as well as residents of cities and rural settlements.

Logistic assets

Striving for maximum efficiency in the delivery of goods to the consumer, Mechel is actively developing its own logistics network. The Group includes cargo seaports in the Japanese Sea (Trade Port Posiet) and the Azov Sea (Mechel-Temryuk Port) and a cargo river port on the Kama River in central Russia (Port Kambarka). Availability of own cargo transportation capacities allows the Group to save on costs. Thus, Mechel is less dependent on fluctuations in the transportation market – the company can create a flexible delivery schedule that is convenient for customers. Mechel also has a large fleet of rolling stock. In 2016 the company transported about 43 million tons of cargo. Logistic assets are operated by Mechel-Trans LLC.

Trade Port Posiet Joint Stock Company (Posiet, Primorye Territory) – sea trade port, ensures coal supply to the countries of the Asia-Pacific Region. The railway connects it with the Trans-Siberian Railway, north-east China and North Korea. Posiet is a convenient terminal for transporting coal mined in the fields of the enterprises of Mechel Group – Yakutugol and Southern Kuzbass. The port now plays an important role, with commencement of export supplies from Elga Coal Deposit. Currently, port Posiet is capable of transshipping up to 7 million tons of cargoes a year, and after the modernization is completed its capacity will increase up to 12 million tons a year in a long-term. The goal of the technical re-equipment project is to turn the Posiet port into a specialized coal terminal. The increase in cargo turnover was achieved due to the introduction of modern technology of processing bulk goods and installation of high-performance equipment.

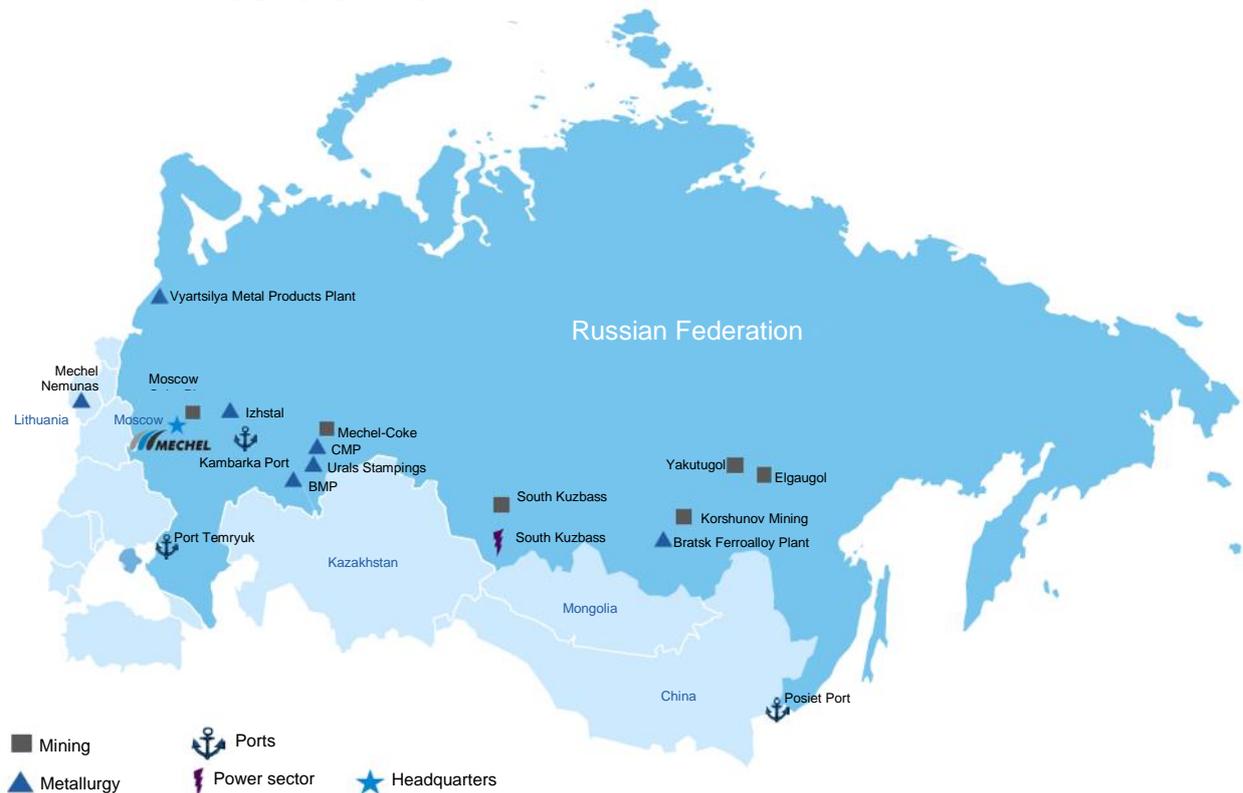
Port Mechel Temryuk Limited Liability Company (Temryuk, the Krasnodar Territory, Taman Coast of the Sea of Azov) – is a modern, technically equipped sea port open for foreign ships entry. It has a favorable geographical location and climatic conditions allowing navigation throughout the year. Port Mechel Temryuk ensures coal supply to the countries of the Black Sea and Mediterranean Sea Basin both using a direct option with ships of "river-sea" type and with transshipment in the Kerch Strait to heavy-tonnage vessels (bulk carriers). Port Temryuk comprises two operating berths of 248 meters in length to service export/import cargoes and one berth to service ships with domestic cargoes. The total length of the coastal line, where the transshipment facility is located, is 850 meters, and the area of the transshipment facility is around 36 hectares. The port has its own access railway. The port currently transships approximately 1.5 million tons of cargoes a year. Main types of cargoes are coal and coke, as well as metal rolled products.

Port Kambarka Open Joint Stock Company (Kama, the Udmurt Republic) is one of the most deep-water river ports in Russia transshipping metal products, coal, sand, crushed stone and quarry stone. The port has a berthing wall of 620 meters in length with guaranteed depth of the ship's passage and berth entries with 4 meters depth. The length of the internal railways equal to 3.8 kilometers allows simultaneous loading of up to 60 wagons. Loading and unloading works are carried out by eight portal cranes with a lifting capacity ranging from 5 to 20 tons. The total area of the warehouse is 38,300 square meters. The enterprise specializes in transshipment of bulk cargoes (coal, crushed stone, gypsum stone, quarry stone, sand, ASG, alumina) and packaged cargo (slabs, billets, rolled metal products, tubular products). The port transships the Mechel cargoes sending them to the Baltic Sea, the Caspian Sea, the Black Sea and Mediterranean Basin via the internal waterways of Russia. The port also transships products to supply them to Turkey, Romania, Bulgaria and further to Europe.

Product sales

Sales of products of the mining segment, metal products and ferroalloys on the domestic and foreign markets are conducted by own trading companies. The company has a network of foreign subsidiaries, branches, warehouses, service centers and agents for marketing its own products on the international market, as well as a Russian subsidiary sales and service company that sells steel products on the domestic market with regional offices in 44 Russian cities.

Mechel Group geographical presence



Shares of Mechel PAO

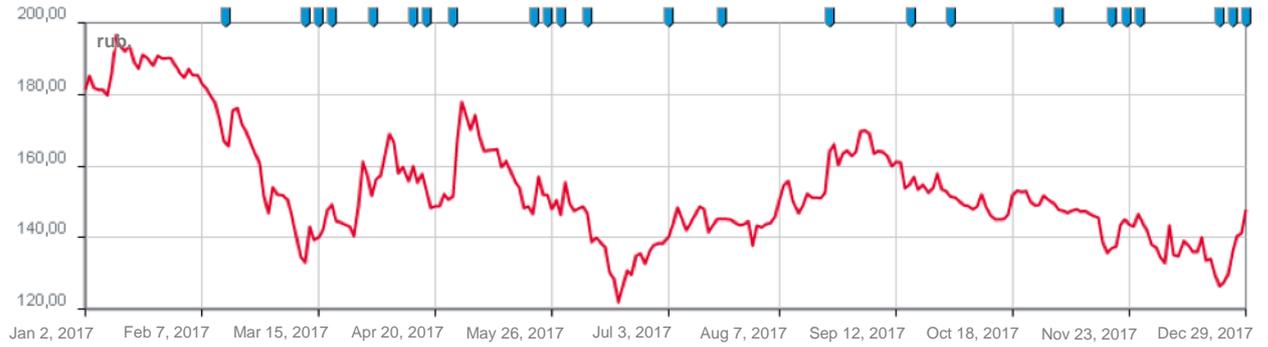
Mechel PAO is the first company among mining and metallurgical companies from Eastern and Central Europe, and Russia, which placed its shares on the New York Stock Exchange.

Since October 2004, ordinary registered shares of the Company have been circulating outside the Russian Federation in the form of American Depositary Receipts, level 3 (hereinafter – the "ADR") at New York Stock Exchange under MTL symbol. From January 12, 2016 each ADR is two ordinary shares of the Company.

Since May 7, 2010, preferred shares of the Company have been circulating at New York Stock Exchange in the form of Preferred American Depositary Receipts. Each preferred ADR is a half of a preferred share (1 preferred ADR = ½ of a preferred share).

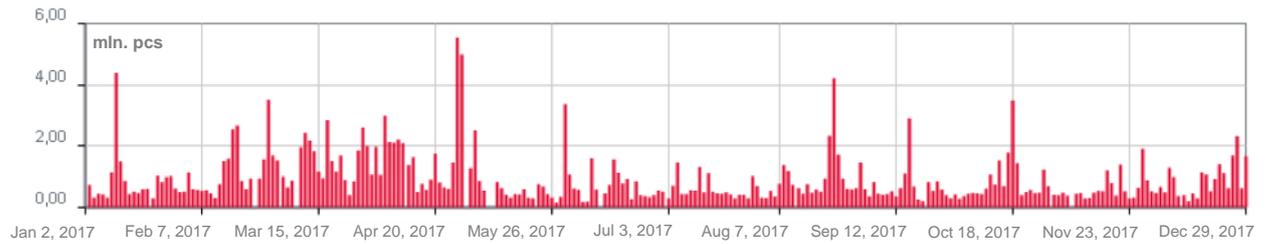
The shares of the Mechel PAO were admitted for trading at the Moscow Stock Exchange PJSC and were included in quotation list A, level 1. In the trading system, common shares are assigned the MTLR code, and preferred shares trade under MTLRP code.

Price trend of ordinary shares for 2017.



Volumes

in pcs

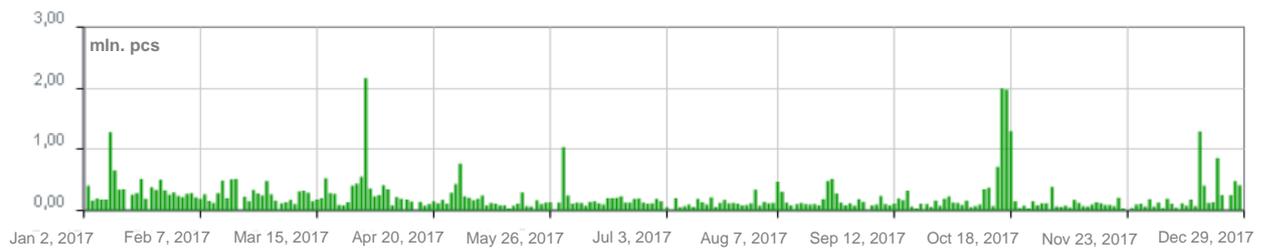


Price trend of one American Depositary Receipt for an ordinary share for 2017.

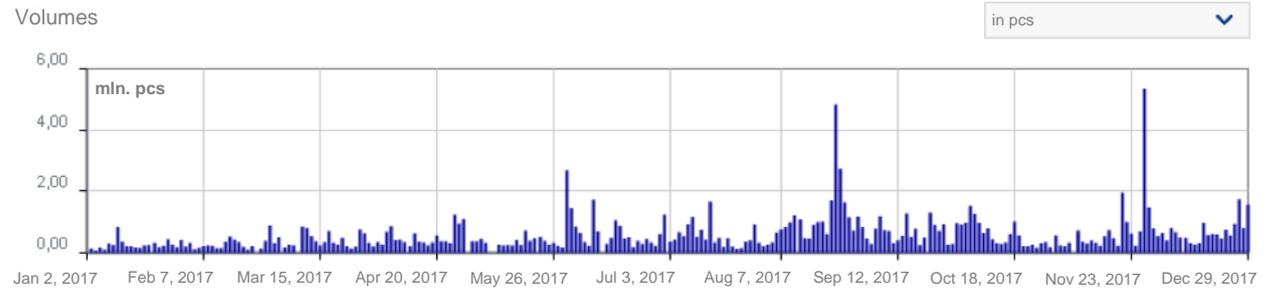


Volumes

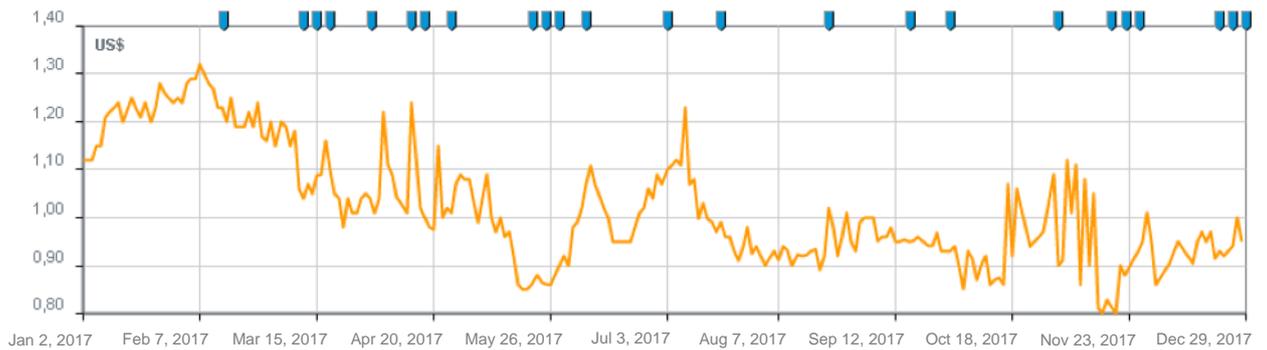
in pcs



Price trend of preferred shares for 2017.



Price trend of one American Depositary Receipt for preferred share for 2017.



1.9. staff Headcount and Social policy

As of December 31st 2017 the headcount of Mechel is 222 people. About 59.971 thous. People work at Mechel Group enterprises.

Mechel enterprises follow the principles of social responsibility and therefore contribute a lot to the social and economic development of the regions of their location through first of all being major taxpayers and employers. Elga Coal Complex development in the Far East region resulted in

new work places offering competitive salary and wages level thus proving the above mentioned statement.

Mechel's social policy is aimed at the improving of the Company's effectiveness and competitiveness, generating stable and high-qualified working teams by means of a developed social security system to cater for the needs of the employees. By investing into social programs the Company is planning to ensure the high level of the employees' efficiency, retain professional teams and preserve good reputation in the external labour market.

1.10. Representation Offices

The Company has the following Representation Offices:

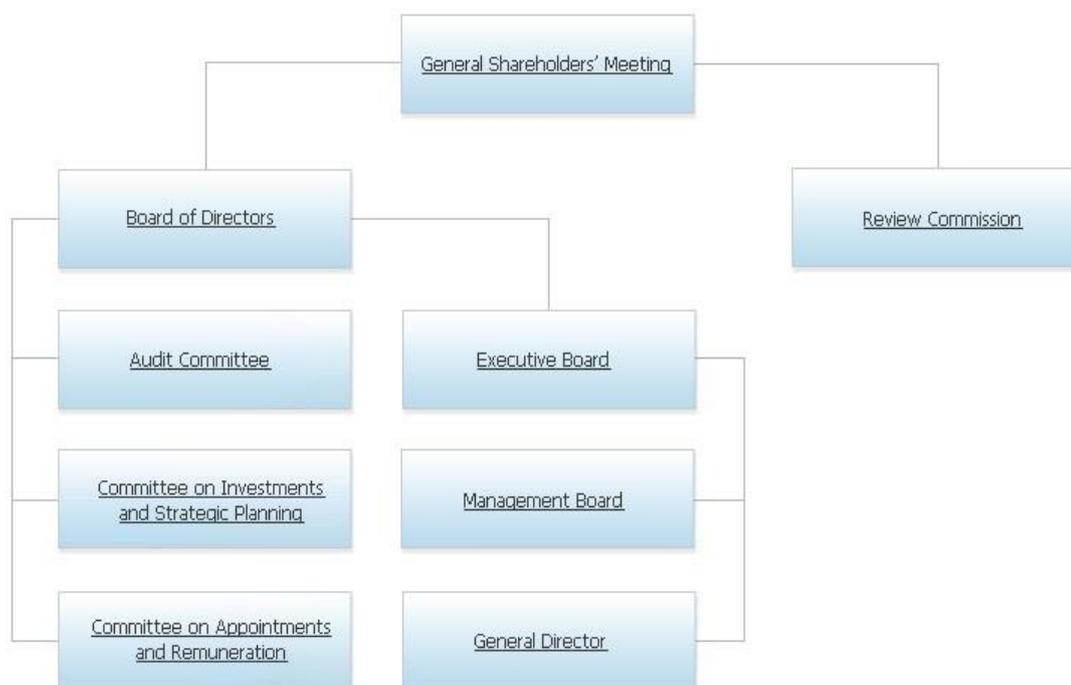
- Representation Office of Mechel, Public Joint Stock Company, in the Republic of Korea located at: 6th floor bld. "Jisang", Kangnam-Gu, Yongsong str. 86gil 6 Daechi-dong Gangnam-gu, Seoul, South Korea, established on August 11th 2009.
- Representation Office of Mechel, Public Joint Stock Company, in Japan, located at: No. 302 Atagoyama Bengoshi Building 1-6-7 Atago Minato-ku, Tokyo 105-0002, established on September 24th 2009.

The activities of the Representation Offices are regulated by approved Bylaws on Mechel PAO's Representative Offices. The following are the main tasks and functions of the Representation Offices:

- represent the interests of Mechel PAO related to foreign economic activities in the countries they are located;
- perform the monitoring of the way the economic situation in the countries they are located influences the interests of the Company;
- participate in the work of the intergovernmental bodies of the Russian Federation establishing cooperation with the countries of the Asia-Pacific region (APAC) in the fields of commerce, science and technology;
- analyze the situation in the commodity and stock markets of APAC in the part of demand for the products of the Company as well as in the part of cost of its shares;
- provide support to the Company's delegations during business negotiations in the countries they are located.

2. MANAGEMENT AND CONTROL BODIES OF THE COMPANY

The following is the structure of management and controlling bodies of Mechel PAO in accordance with its Charter:



2.1. General Shareholders' Meeting

General Shareholders' Meeting is the highest management body of the Company that makes decisions on the questions that are the most important for the Company operations.

The procedure for preparation, convening, holding and summarizing of the General Meeting are determined in the Regulation on the General Shareholders' Meeting of Mechel PAO (approved by resolution of the extraordinary General Shareholders' Meeting on March 4th 2016).

Annual General Shareholders' Meeting

The Annual General Shareholders' Meeting of Mechel PAO was held on June 30th 2017 (MoM No. 1 dd. June 30th 2017). The Agenda of the Annual General Shareholders' Meeting was as follows:

1. Distribution of profit, including payment (announcement) of dividends of the Company based on the results of the financial year.
2. Election of the members of the Board of Directors of Mechel, Public Joint Stock Company.
3. Election of the members of the Revision Commission of Mechel, Public Joint Stock Company.
4. Approval of the auditor of Mechel, Public Joint Stock Company.
5. Approval of the new edition of the Charter of Mechel, Public Joint Stock Company.
6. Approval of the new edition of the Regulation on Payment of Remuneration to Members of the Board of Directors of Mechel PAO and of Compensation for the Expenses Related to the Fulfillment by Members of the Board of Directors of their Functional Duties.

Extraordinary General Meetings of Shareholders

2 (two) Extraordinary General Meetings of Shareholders of Mechel PAO were held during the accounting period.

No.	Date of Extraordinary General Shareholders' Meeting, Minutes No.	Agenda
1.	February 27 th 2017 Minutes No.2 dd. February 28 th 2017	1. Approval of related party transactions to be made between Bank VTB (PJSC) and the Company. 2. Approval of related party transactions to be made between Gazprombank (JSC) and the Company.
2.	May 17 th 2017 Minutes No.3 dd. May 19 th 2017	1. Approval of related party transactions to be made between Gazprombank (JSC) and the Company.

2.2. Board of Directors

The Company Board of Directors shall be responsible for overall management of the Company business, except for the items referred to the authority of the Company General Shareholders' Meeting by Federal law On Joint Stock Companies, and the Company Charter.

The Company's Board of Directors is subject to election by the General Meeting of the Company's shareholders by way of cumulative voting, thus guaranteeing protection of minority shareholders' rights.

The Company's Board of Directors consists of 9 (Nine) members 5 (Five) of which are independent directors. Those BD members were elected by General Shareholders' Meeting on June 30th 2016.

Regulation on the Board of Directors of Mechel PAO is in pace in the Company (approved by resolution of the extraordinary General Shareholders' Meeting on March 4th 2016, minutes No.2 dated March 4th 2016).

Composition of the Board of Directors of the Company as of December 31st 2017:

<p>Zyuzin Igor Vladimirovich (Chairman of the Board of Directors)</p>	<p>Year of birth: 1960.</p> <p>Education: higher professional education. - Tula Polytechnic Institute (area of specialty – underground mining technology and integrated mechanization of underground mining operations). - Postgraduate training programme of Tula Polytechnic Institute. PhD in engineering. - Kuxbass Polytechnic Institute (area of specialty - Economics and Company Management in the fields of mining and geological prospecting), Mining engineer and economist.</p> <p>Primary employment: Chairman of the Board of Directors of Mechel PAO.</p> <p>Stake in equity of the Company: 16.16 %.</p> <p>Owned stock of common shares of the Company: 21.54 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: Chief Executive Officer of Mechel Mining AO, BD member of Mechel Mining AO.</p>
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<p>Korzhev Oleg Viktorovich (BoD member)</p>	<p>Year of birth: 1970.</p> <p>Education: Higher professional education. - Urals Technical University named after Kirov (specialty: Economics and Management in Steel Industry); - The Russian Presidential Academy of National Economy and Public Administration (specialty: Management). PhD in Economics.</p> <p>Primary employment: Chief Executive Officer of Mechel PAO.</p> <p>Stake in equity of the Company: 0.0018 %.</p> <p>Owned stock of common shares of the Company: 0.0024 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of Mechel Mining AO.</p>
<p>Petrov Georgiy Georgievich (independent BoD member)</p>	<p>Year of birth: 1948.</p> <p>Education: Higher professional education. Moscow State Institute of International Relations of the Ministry of Foreign Affairs of the USSR, a specialty in foreign trade economics</p> <p>Primary employment: Advisor on international affairs for the president of Chamber of Commerce and Industry of the Russian Federation.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
<p>Kotskiy Aleksandr Nikolaevich (independent BoD member)</p>	<p>Year of birth: 1957.</p> <p>Education: Higher professional education. - Novosibirsk Institute of Railway Engineers, specialty - "Railway Engineer".</p> <p>Primary employment: independent BoD member of Mechel PAO.</p> <p>Stake in equity of the Company: 0.005 %.</p> <p>Owned stock of common shares of the Company: 0.006 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
<p>Malyshev Yuri Nikolayevich (Independent BoD member)</p>	<p>Year of birth: 1939.</p> <p>Education: Higher professional education. - Kemerovo Mining Institute (specialty: "Development of mineral deposits), Mining engineer. Doctor of Engineering, professor, member of the Academy of Sciences.</p> <p>Primary employment: President of the Academy of Mining Sciences.</p>

	<p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: independent BoD member of Acron PAO; President of the State Geology Museum of the Russian Academy of Sciences named after Vladimir Vernadsky.</p>
<p>Orischin Alexander Dmitrievich (independent BoD member)</p>	<p>Year of birth: 1932.</p> <p>Education: Higher professional education. - Higher education. Tomsk Polytechnic Institute and Moscow Mining Institute, specialty - "Development of mineral deposits"; - Moscow State Mining University. Mining Engineer (development of mineral deposits). PhD (Engineering).</p> <p>Primary employment: independent BoD member of Mechel PAO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
<p>Trigubko Victor Alexandrovich (BoD member)</p>	<p>Year of birth: 1956.</p> <p>Education: Higher professional education. - Kalinin (now - Tver) State University, specialty - "Labor economics".</p> <p>Primary employment: Vice President for Government Relations.</p> <p>Stake in equity of the Company: 0.00036 %.</p> <p>Owned stock of common shares of the Company: 0.00048 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
<p>Khachaturov Tigran Garikovich (Independent BoD member)</p>	<p>Year of birth: 1979.</p> <p>Education: Higher professional education. - Plekhanov Russian Academy of Economics, specialty - "Banking and Finance", Economist.</p> <p>Primary employment: Head of Division for the restructuring of GPB assets.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>

	Participation in management bodies of other companies: Board member of GPB (JSC).
Shokhin Alexander Nikolaevich (Deputy Chairman of the Board of Directors, independent BoD member)	<p>Year of birth: 1951.</p> <p>Education: Higher professional education. - Lomonosov Moscow State University. Has a doctorate in economics, professor.</p> <p>Primary employment: President of the Russian Union of Industrialists and Entrepreneurs.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: President of the Higher School of Economics National Research University; BoD member of Eurasia Drilling Company Limited; BoD member of TMK PAO; BoD member of The Federal Corporation for the Development of Small and Middle Size Businesses AO; Board member of the Chamber of Commerce and Industry of the Russian Federation; Supervisory Board member of the Agency for Strategic Initiatives (ASI); Supervisory Board member of Autonomous Non-Commercial Organization "Agency for Technological Development".</p>

The BoD composition of Mechel PAO changed only once during 2017 by General Annual Shareholders' Meeting that took place on June 30th 2017. Based on the results of the above mentioned General Annual Shareholders' Meeting Korovkin Vladimir Yurievich quitted his membership in the Board of Directors of the Company and was replaced by Petrov Georgiy Georgievich.

Composition of the Board of Directors of the Company from January 1st 2017 till June 30th 2017:

1. Zyuzin Igor Vladimirovich;
2. Korzhov Oleg Viktorovich;
3. Korovkin Vladimir Yurievich;
4. Kotskiy Aleksandr Nikolaevich;
5. Malyshev Yuri Nikolayevich;
6. Orischin Alexander Dmitrievich;
7. Trigubko Victor Alexandrovich;
8. Khachaturov Tigran Garikovich;
9. Shokhin Alexander Nikolaevich.

Information on ex-member of the Board of Directors of the Company, Mr. Korovkin:

Korovkin Vladimir Yurievich	<p>Year of birth: 1960.</p> <p>Education: Higher professional education. - Lomonosov Moscow State University, International Economy and Geography, PhD in Economics.</p>
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	<p>Primary employment: independent BoD member of Mechel PAO (till June 2017).</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
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Information on the activities of the Board of Directors of the Company

45 (forty-five) meetings of the Board of Directors of Mechel PAO were held during the accounting period, 40 (forty) of them were held in form of absent voting and 5 (five) of them were held in form of personal presence (joint attendance).

Expert Committees of the Board of Directors

There are 3 (three) Committees operating in the Board of Directors of Mechel PAO:

- Audit Committee;
- Nominations and Compensation Committee;
- Investments and Strategic Planning Committee.

Audit Committee

The permanent Audit Committee of the Board of Directors of Mechel PAO consists of 3 independent directors. The activities of the Audit Committee are regulated by Regulation on the Audit Committee of Mechel Public Joint Stock Company (approved by resolution of the Board of Directors of Mechel PAO, MoM w/o number dd. May 19th 2016).

The main purpose of the Audit Committee is to facilitate an effective performance of the functions of the Board of Directors in the part of control over the financial and operational activities of Mechel PAO, to develop recommendations as per questions within its competency and submit them to the Board of Directors.

The main tasks of the Audit Committee cover the following fields of the Company activities:

- Accounting and financial statements;
- Internal and external audit;
- Internal control;
- Suppression of frauds on the part of the Company employees and third parties.

More detailed information as per the tasks is contained in the Regulation on the Audit Committee of the Board of Directors.

Committee members have experience and skills in the field of preparation, analysis, assessment and audit of book accounting statements and of IFRS financial statements.

The composition of the Audit Committee of the Board of Directors of Mechel PAO was approved only once in 2017.

The composition of the Audit Committee of the Board of Directors of Mechel PAO was approved on June 30th 2017 by resolution of the Board of Directors of Mechel PAO (MoM dd. June 30th 2017) as follows:

1. Georgy G. Petrov – Committee Chairman;
2. Kotskiy Aleksandr Nikolaevich – Committee member;
3. Orischin Alexander Dmitrievich – Committee member.

Georgy G. Petrov was approved as the Financial Expert of the Audit Committee of the Board of Directors.

During the period from January till June 2017 the composition of the Audit Committee was as follows:

1. Korovkin Vladimir Yurievich - Committee Chairman;
2. Kotskiy Aleksandr Nikolaevich – Committee member;
3. Orischin Alexander Dmitrievich – Committee member.

Audit Committee of the Board of Directors of Mechel PAO had 13 (thirteen) meetings in 2017 (3 meetings in praesentia and 10 meetings inform of a conference call). Questions within the competence of the Committee were discussed (section 12 hereof).

Below you can see the information related to the participation of BD members in the work of the Audit Committee:

Members of the Audit Committee of the Board of Directors	Independent director	Participation in the meetings
Vladimir Y. Korovkin – Chairman of the Audit Committee	+	6/6
Georgy G. Petrov - Chairman of the Audit Committee	+	7/7
Alexander N. Kotsky	+	13/13
Alexander D. Orischin	+	13/13

The number of the meetings in which Audit Committee members could participate coincides with the number of the meetings in which Audit Committee members participated. That means that independent directors actively participated in the work of the Audit Committee.

Nominations and Compensation Committee

The activities of the Nominations and Compensation Committee of the Board of Directors of the Company are regulated by Provisions on the work of the Nominations and Compensation Committee of Mechel PAO (approved by resolution of the Board of Directors of Mechel PAO, MoM w/o number dd. May 19th 2016).

The purpose of the Committee is to consider and discuss the questions related to the creation of effective and transparent remuneration practices and preparation of recommendations in respect of decision making as per hiring and training the highly qualified specialists to be elected to the Board of Directors, collegial executive body (the Board) and to be appointed to the positions of the Chief Executivew Officer, top management positions, heads of the Company ‘s subsidiaries and associates as well as per assessment of their activities and the framework and amounts of their remuneration and recommendations as per the main principles of the HR policy and remuneration policy.

In view of the targets set the following tasks are to be fulfilled by the Committee:

- ensure creation by the Company of an effective and transparent remuneration practice for members of the Board of Directors, members of the collegial executive body of the Company, its sole executive body and key management staff (top management and heads of the subsidiaries and associates of the Company);

- ensure succession and high professional and management level in case of change of members of the Board of Directors, members of the collegial executive body (the Board), Chief Executive Officer, top management, heads of subsidiaries and associates;

- ensure creation of the remuneration system for payment of remuneration to members of the Board of Directors, members of the collegial executive body (the Board), Chief Executive Officer, top management, heads of subsidiaries and associates of the Company with the consideration of the shareholders' interests, ensure the system is agreed with the Company's general policy of labour payment and with the remuneration level of other employees as well as to ensure its competitiveness and compliance with the existing law.

Committee members have experience and skills in the field of making decisions related to the creation of effective and transparent remuneration practices and preparation of recommendations in respect of decision making as per hiring and training the highly qualified specialists. They are also competent in the questions related to HR policy, remuneration policy capable of stimulating the effectiveness of work as well as related to social policy embracing such topics as the assessment of the effectiveness of social programs and the compliance of the external and internal social policy to the strategical priorities of the Company.

The composition of the Nominations and Compensation Committee of the Board of Directors of Mechel PAO was approved only once in 2017.

The composition of the Nominations and Compensation Committee of the Board of Directors of Mechel PAO was approved on June 30th 2017 by resolution of the Board of Directors of Mechel PAO (MoM dd. June 30th 2017) as follows:

1. Orischin Alexander Dmitrievich – Chairman of the Committee;
2. Georgy G. Petrov – Committee member;
3. Malyshev Yuri Nikolayevich – Committee member.

Starting from July 2016 till June 2017 the composition of the Committee was as follows:

1. Orischin Alexander Dmitrievich – Chairman of the Committee;
2. Malyshev Yuri Nikolayevich – Committee member;
3. Korovkin Vladimir Yurievich – Committee member.

The Nominations and Compensation Committee of the Board of Directors of Mechel PAO had 7 (seven) meetings in 2017 (3 meetings in praesentia and 4 meetings in absentia).

The following are the most significant questions that were discussed by Committee:

- Questions related to the status of implementation of Industrial agreements and to the Company's interactions with employers' associations and trade unions;
- Results of using the pay roll fund of the Company in 2016;
- The main payroll fund generation principles in 2017 for each production segment and for the Company in general;
- Plans for the payroll fund of the Company in 2017;
- Candidates for top management positions in the Company structures were considered and agreed;
- Cooperation and interactions with other BD Committees, sub-committees, subdivisions and leading specialists of the Company.

Investments and Strategic Planning Committee

The activities of the Investments and Strategic Planning Committee are regulated by Bylaw on the Investments and Strategic Planning Committee of the Board of Directors of the Company (approved by resolution of the Board of Directors of the Company, MoM w/o number dd. August 6th 2007).

The purpose of the Investments and Strategic Planning is a preliminary qualified discussion and preparation of questions related to the strategic planning of the main areas of the Company's activities as well as to building up an investment policy that would be able to ensure the fulfillment of the targets set and to submit such questions to the Board of Directors of the Company for consideration.

The following are the main tasks of the Committee based on the targets set:

- Perform preliminary assessment and preparation, as the case may be, of the opinion in respect of the drafts of long-term programs of the main production segments technical and production development designed by executive bodies and subject for consideration by the Company Board of Directors;

- work out proposals in respect of the strategy for the development of the Mining, Steel and Power production segments and their production infrastructure and submit such proposals to the Board of Directors of the Company for consideration;

- Analyze the investment opportunities of the Company and work out proposals in respect of creation of a long-term balanced plan of capital investments for the priority areas of the Company's activities;

- Arrange within its competence the interactions between the Board of Directors and Management bodies of the Company;

- Keep monitoring and controlling the execution of the decisions of the Board of Directors in respect of the questions within its competence.

Committee members have experience and knowledge in the field of management of financial and operational activities, analysis of investment opportunities, investment activities management and creation of long-term programs of capital investments, working out respective investment policy for the purpose of implementation of the Company development strategy.

The composition of the Investments and Strategic Planning Committee was approved only once in 2017.

The composition of the Investments and Strategic Planning Committee of the Board of Directors of Mechel PAO was approved on June 30th 2017 by resolution of the Board of Directors of Mechel PAO (MoM dd. June 30th 2017) as follows:

1. Malyshev Yuri Nikolayevich – Chairman of the Committee;
2. Orischin Alexander Dmitrievich – Committee member;
3. Kotskiy Aleksandr Nikolaevich – Committee member;
4. Khachaturov Tigran Garikovich – Committee member;
5. Korzhov Oleg Viktorovich – Committee member.

The Investments and Strategic Planning Committee of the Board of Directors of Mechel PAO consists of the following approved **subcommittees**:

- Subcommittee for Steel Segment Strategy:

1. Orischin Alexander Dmitrievich – Head of the Subcommittee;
2. Korzhov Oleg Viktorovich – Subcommittee member;

- Subcommittee for Mining Segment Strategy:

1. Malyshev Yuri Nikolayevich – Head of the Subcommittee;
2. Kotskiy Aleksandr Nikolaevich – Subcommittee member.

The Investments and Strategic Planning Committee of the Board of Directors of Mechel PAO had 4 (four) meetings in 2017 (two meetings in praesentia and two meetings in absentia).

The following are the most significant questions that were discussed by Committee:

- Preliminary results of the Company's financial and operational activities in 2016;
- 2016 Investment Program completion status;
- Results of the activities of the Company production Segments in 2016, programs of the Segments production and financial development in 2017, analysis of 2016 Investment program fulfillment and plans for 2017;
- Report on the status of implementation of Elga Coal Complex development project;
- Report on the status of implementation of the Universal Structural Mill project at CMP and on the results achieved;
- Report on the status of implementation of the project of technical re-equipment of Port Posiet and on the results achieved;
- It was recommended to submit the reports on the results of the Segments in 2016, the programs of the production and financial development of the Segments for 2017, analysis of 2016 Investment programs implementation and plans for 2017 to the Board of Directors for consideration;
- A task was set for the next Committee meeting to present a report on the results of the analysis of feasibility of meeting obligations related to licenses for geological prospecting and minerals extraction;
- Results of the investment activities of the Company for HY 1 of 2017 and forecasted capital expenses for HY 2 2017 were discussed and approved;
- Reports on strategic investment projects (implementation status and the results achieved) were discussed and approved;
- Report on the fulfillment of obligations of the Company related to licenses for geological prospecting and minerals extraction was approved with respective recommendations;
- A task was set for Mining Segment to present at the next meeting the report on the current status of fulfillment of licenses related obligations and of implementation of the recommended activities;
- Questions to be included into the Plan of Work for the Investments and Strategic Planning Committee of the Board of Directors of Mechel PAO for 2017-2018.
- The Plan of Work for the Investments and Strategic Planning Committee of the Board of Directors of Mechel PAO for 2017-2018 was considered and approved.
- A task was set for the Secretary of the Committee to provide the Committee members and presenters with the above mentioned plan and to organize the following:
 - 1) preparation of the reports related to the current financial activities (fact for 9 months of 2017 and forecast for 12 months of the current year), results of the work performed in 2017 related to the fulfillment/restructuring of financial liabilities and to interactions with banks in the mid-term and long-term perspective;

2) preparation of the reports related to the results demonstrated by Segments in 2017, prospects for enterprises continuing as a going concern in 2018 and investment plans completion;

- Forecasts for the Company financial and operational activities for 2017, status and analysis of the Investment Programs implementation were presented and approved for being submitted to the Board of Directors for consideration;

- Priority areas of activities for 2018 were defined for Mechel PAO;

- Power Segment presented its proposals related to the implementation of the project of a co-generation plant at BMP AO, including the economic parameters and implementation scheme; the project was recognized as feasible for implementation.

2.3. Chief Executive Officer and Management Board

The system of executive bodies of the Company includes the Management Board - collegial executive body and CEO - sole executive body of the Company that manage current activities of the Company and report to the General Shareholders' Meeting and the Company Board of Directors.

Procedure of appointment and formation of executive bodies of the Company, principles and procedure of their activities are established in the Regulation on the Collegial Executive Body (Management Board) (approved by Annual General Shareholders' Meeting of the company, MoM No.1 dd. June 9th 2011) and the Regulation on the Sole Executive Body (CEO) (approved by Annual General Shareholders' Meeting of the company, MoM No.1 dd. June 9th 2011).

Sole executive body of the Company

The Company's Chief Executive Officer is a permanent Sole Executive Management Body responsible primarily for day-to-day operations to ensure the Company's profitability as well as protect the Company's shareholders' rights and lawful interests. The Chief Executive Officer acts within the scope of its authority and reports to the Company's Board of Directors and General Shareholders' Meeting.

Chief Executive Officer shall be appointed by Board of Directors for the period of 1 (one) year.

Korzhov Oleg Viktorovich was appointed Chief Executive Officer of Mechel PAO based on respective resolution of the Board of Directors dd. December 16th 2016 (MoM dd. December 19th 2016 and came into office on January 1st 2017.

Information on the Chief Executive Officer of the Company:

<p>Korzhov Oleg Viktorovich (BoD member, Chairman of the Board of Mechel PAO)</p>	<p>Year of birth: 1970.</p> <p>Education: Higher professional education. - Urals Technical University named after Kirov (specialty: Economics and Management in Steel Industry); - The Russian Presidential Academy of National Economy and Public Administration (specialty: Management). PhD in Economics.</p> <p>Primary employment: Chief Executive Officer of Mechel PAO.</p> <p>Stake in equity of the Company: 0.0018 %.</p> <p>Owned stock of common shares of the Company: 0.0024 %.</p>
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	<p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of Mechel Mining AO</p>
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Collegial executive body of the Company

The Company's Management Board is in charge of day-to-day management of Mechel PAO operations defining ways of executing the Company's strategy, supervising compliance with investment projects, generating proposals for incentives for the Company's staff and addressing (on a preliminary basis) matters reserved for the decision by the Company's Board of Directors.

The composition of the Board was elected on May 22nd 2017 by resolution of the Board of Directors of Mechel PAO (MoM w/o number dd. May 23rd 2017) and remained unchanged as of December 31st 2017.

Composition of the Management Board of the Company as of December 31st 2017:

<p>Korzhov Oleg Viktorovich (Chairman of the Board)</p>	<p>Year of birth: 1970.</p> <p>Education: Higher professional education. - Urals Technical University named after Kirov (specialty: Economics and Management in Steel Industry); - The Russian Presidential Academy of National Economy and Public Administration (specialty: Management). PhD in Economics.</p> <p>Primary employment: Генеральный директор ПАО «Мечел».</p> <p>Stake in equity of the Company: 0,0018 %.</p> <p>Owned stock of common shares of the Company: 0,0024 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of Mechel Mining AO</p>
<p>Galeeva Nelli Rafailovna (Board member)</p>	<p>Year of birth: 1973.</p> <p>Education: Higher professional education. - Kuzbass State Technical University, specialty - "Accounting and audit"; - Kemerovo State University, specialty - "Banking and Finance".</p> <p>Primary employment: Director of the Administration for Accounting and Tax Records of Mechel PAO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p>

	<p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of Elga Road OOO</p>
<p>Natalia Olegovna Trubkina (Board member)</p>	<p>Year of birth: 1964.</p> <p>Education: Higher professional education. - Novopolotsk Polytechnic Institute, specialty - "Heat and gas supply and ventilation"; - Lomonosov Moscow State University, a diploma of additional education in program "Personnel management psychology".</p> <p>Primary employment: HR Director of Mechel PAO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of CMP PAO</p>
<p>Rezontov Sergey Viktorovich (Board member)</p>	<p>Year of birth: 1983.</p> <p>Education: Higher professional education. - Plekhanov Russian Academy of Economics, specialty - "Management".</p> <p>Primary employment: CFO of Mechel PAO (until December 2017).</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of BMP AO BoD member of Southern Urals Nickel Plant BoD member of Mechel Mining AO BoD member of Urals Stampings Plant PAO BoD member of Elgaugol OOO</p>
<p>Ipeeva Irina Nikolatvna (Board member)</p>	<p>Year of birth: 1963.</p> <p>Education: Higher professional education. - a degree in law from the Kuibyshev State University.</p> <p>Primary employment: Director of our Legal Department of Mechel PAO.</p>

	<p>Stake in equity of the Company: 0,00018 %.</p> <p>Owned stock of common shares of the Company: 0,00024 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of Southern Kuzbass PAO BoD member of Mechel Mining AO</p>
<p>Sheverdin Valery Anatolievich (Board member)</p>	<p>Year of birth: 1963.</p> <p>Education: Higher professional education. - Moscow Border Institute of the Federal Security Service of the Russian Federation, a degree in law; - the Kolomna Higher Artillery Command College of the October Revolution.</p> <p>Primary employment: Vice President for Corporate Security of Mechel PAO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
<p>Darbinyan Minas Arsenovich (Board member)</p>	<p>Year of birth: 1983.</p> <p>Education: Higher professional education. - the Academy of National Economy under the Government of the Russian Federation on a specialty "management"; - the State Academic University for Humanities in "economic theory".</p> <p>Primary employment: Deputy Chief Executive Officer for Financial Control of Mechel PAO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of Port Posiet AO</p>
<p>Trigubko Victor Alexandrovich (Board member)</p>	<p>Year of birth: 1956.</p> <p>Education: Higher professional education. - Kalinin (now - Tver) State University, specialty - "Labor economics".</p> <p>Primary employment: Vice President for Government Relations.</p> <p>Stake in equity of the Company: 0.00036 %.</p>

	<p>Owned stock of common shares of the Company: 0.00048 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
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The following was the composition of the Management Board of the Company from January 1st 2017 till May 22nd 2017:

1. Korzhov Oleg Viktorovich;
2. Galeeva Nelli Rafailovna;
3. Natalia Olegovna Trubkina;
4. Rezontov Sergey Viktorovich;
5. Ipeeva Irina Nikolatvna;
6. Ponomarev Andrey Alexandrovich;
7. Sheverdin Valery Anatolievich;
8. Shtark Pavel Viktorovich;
9. Lebedev Alexey Viktorovich;
10. Darbinyan Minas Arsenovich;
11. Trigubko Victor Alexandrovich.

The following Board members ceased to be Board members based on the results of the meeting of the Board of Directors of Mechel PAO held on May 22nd 2017 (MoM w/o number dd. May 23rd 2017):

- Ponomarev Andrey Alexandrovich;
- Shtark Pavel Viktorovich;
- Lebedev Alexey Viktorovich.

Information on ex-members of the Management Board of the Company:

Ponomarev Andrey Alexandrovich	<p>Year of birth: 1977.</p> <p>Education: Higher professional education. - South Ural State University, specialty - "Pressure metal treatment " and "Finance".</p> <p>Primary employment: Chief Executive Officer of Mechel-Steel Management Company OOO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies: BoD member of CMP PAO</p>
Shtark Pavel Viktorovich	<p>Year of birth: 1969.</p> <p>Education: Higher professional education.</p>

	<p>- The Urals State Technical University, a degree in chemical technology of natural energy carriers and carbon materials.</p> <p>Primary employment: Chief Executive Officer of Mechel Mining Management Company OOO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>Participation in management bodies of other companies:</p> <p>BoD member of Moscoke AO</p> <p>BoD member of Korshunov Mining Plant PAO</p> <p>BoD member of Elgaugol OOO</p> <p>BoD member of Mechel Mining AO</p> <p>BoD member of HC Yakutugol AO</p>
<p>Lebedev Alexey Viktorovich</p>	<p>Year of birth: 1974.</p> <p>Education: Higher professional education.</p> <p>- Izhevsk State Technical University, a degree in industrial management.</p> <p>Primary employment: Chief Executive Officer of Mecheltrans Management Company OOO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p> <p>BoD member of Port Kambarka AO</p> <p>BoD member of Port Vanino AO</p>

2.4. Revision Committee

Control over financial and operational activities of the Company is performed by Revision Commission. Revision Commission is elected by General Shareholders' Meeting for the period of 1 (one) year and consists of 3 (three) persons.

The composition of the Revision Commission elected by General Meeting of Shareholders of Mechel PAO on June 30th 2017 (MoM No. 1 dd. June 30th 2017) is as follows:

1. Zykova Natalia Sergeevna, Director of the Internal Audit Department of Mechel PAO;
2. Kapralov Alexandr Nikolaevich, Director of the Operational Audit Department of Mechel PAO;
3. Bolkhovskikh Irina Viktorovna, Head of the Business Processes Audit Department of Mechel PAO.

Regulation on Revision Commission is approved by Company (minutes of the General Shareholders' Meeting No. 4 dd. April 24th 2004).

In accordance with the above mentioned Regulation, remuneration may be paid to the members of the Revision Commission of the Company during the period of their duties performance and (or) members of the Revision Commission may be compensated for the costs borne by them when performing their duties based on respective resolution of the General Shareholders' Meeting. The total amount of such remunerations and compensations is defined by resolution of the General Shareholders' Meeting.

The Revision Commission that exercised control over the financial and operational activities of the Company during the period from June 30th 2016 till June 30th 2017 consisted of the following persons:

1. Bolkhovskikh Irina Viktorovna;
2. Kapralov Alexandr Nikolaevich;
3. Zykova Natalia Sergeevna.

The main results of the work of the Revision Commission:

In accordance with the Federal law No. 208-FZ "On Joint Stock Companies" dd. December 26th 1995 and in accordance with the Charter of Mechel PAO, the following checks were performed by Revision Commission based on resolution of the Annual General Shareholders' Meeting dd. June 30th 2017:

- audit of the annual book accounting statements for 2017;
- check of the reliability of the data reflected in the Report on the Related Party Transactions Performed by Mechel PAO in 2017;
- validation of the information reflected in the Annual Statement of Mechel PAO for 2017.

The Revision Commission was provided with all the information necessary for the above mentioned checks.

The Revision Commission did not reveal any material violations and/or other circumstances that may influence the reliability of the data contained in the Annual Statement of the Company and in the Report on the Related Party Transactions Performed by Mechel PAO in 2017.

The Revision Commission is in the opinion that there are enough grounds to arrive at a positive opinion on the reliability of the data reflected in the Annual Statement of the Company and in the Report on the Related Party Transactions Performed by Mechel PAO in 2017.

The audit of the annual book accounting statements was performed on a sample basis and included the analysis of the evidences confirming the value and the disclosure of the information on the Company's operational and financial results, assessment of the book accounting principles and methods, rules for the preparation of Statements, definition of material estimated values.

The Revision Commission did not reveal any facts of violation of the book accounting procedures, misstatements in book accounting statements, violations of any laws and regulatory bylaws that could have a material effect upon the reliability of the Company's book accounting statements and annual statement.

The Revision Commission is in the opinion that the facts of the Company's operational activities and its financial and operational results in 2017 are reflected reliably in all material respects in the Book accounting (financial) statements of the Company in compliance with the rules for book

accounting and preparation of book accounting documentation prescribed by laws of the Russian Federation.

2.5. Corporate Secretary

Information on the Corporate Secretary

Regulation on the Department of Corporate Relations and Property was approved by resolution of the Board of Directors of the Company on September 23rd 2016 (MoM No. w/o number dd. September 26th 2016).

In accordance with the above mentioned Regulation the Department is a structural subdivision of the Company that serves as a Corporate Secretary to perform the following functions:

- Participate in the improvement of the issuer's corporate governance system and practices;
- Participate in the organization and preparation of the general meetings of issuer's shareholders;
- Ensure the work of the Board of Directors and of the Committees of the Board of Directors;
- Participate in the implementation of the issuer's policy related to information disclosure as well as ensure the storage of issuer's corporate documentation;
- Ensure interactions between the issuer and its shareholders;
- Participate in the work related to the prevention of corporate conflicts;
- Ensure implementation by issuer of the procedures prescribed by legislation and by issuer's local regulatory bylaws related to the provision of the statutory rights and interests of shareholders and control over the execution of such procedures;
- Ensure interactions of the issuer with regulatory authorities, traders, registrar, other professional securities traders within the powers of the Corporate Secretary;
- immediate informing of the Board of Directors of all the revealed violations of legislation as well of the provisions of the internal documents of the Company the compliance with which is in the domain of the responsibilities of the Corporate Secretary of the Company.

The resolution to appoint Yakunina Olga Anatolievna the Director of Department of Corporate Relations and Property of Mechel PAO was approved by Board of Directors on September 28th 2016 (MoM w/o number dd. September 30th). The Director of the Department of Corporate Relations and Property shall report is functionally subordinated on the Board of Directors and administratively subordinated to the Chief Executive Officer, which provides a due level of independency.

Information on Yakunina Olga Anatolievna:

<p>Yakunina Olga Anatolievna (Director of Department of Corporate Relations and Property that is a structural subdivision acting as a corporate secretary)</p>	<p>Year of birth: 1977. Education: Higher professional education. - Kuzbass State Technical University (KuzSTU), Kemerovo, specialty "Accounting and Audit"; - The Russian Academy for Foreign Trade (RFTA), Moscow, specialty "Law"</p>
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	<p>Primary employment: Director of Department of Corporate Relations and Property of Mechel PAO.</p> <p>Stake in equity of the Company: 0 %.</p> <p>Owned stock of common shares of the Company: 0 %.</p> <p>Information on transactions related to the acquisition or alienation of shares in the accounting period: no such transactions were performed.</p>
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3. COMPANY INFORMATION AND POSITION IN THE INDUSTRY

The main type of the Company business is the provision of consultancy services to the business entities in the equity capital of which the Company participates directly or through third parties. Nevertheless, the situation in the main businesses of such entities (mining and steel businesses) has a direct impact upon the results of the business of the Company.

Besides, the economic situation in Russia and throughout the world has a great influence on the Company's activities.

The period of 2014-2016 can be characterized as a period of economic stagnation in the European countries and slowdown in economic growth in the Asian countries. Conflict of Russia with the Ukraine broke out in 2014, which caused a rapid decrease of oil prices and the imposition of international sanctions resulting in ruble depreciation. Economic crisis broke out in Russia in 2014.

In 2015, Russian GDP decreased by 2.5 % due to the negative external economic environment affecting petroleum feedstock. From the economic view point 2016 can be characterized as smooth and really successful. GDP continued to decrease in 2016 and decreased by 0.2%. The ruble exchange rate started to strengthen in the global market by end of 2016. There were no rapid ruble exchange rate fluctuations in 2017. Ruble exchange rate strengthening and inflation decrease contributed to GDP growth in 2017. GDP grew by 0.6% in Q 1 of 2017, by 2.5% in Q 2, by 2.2% in Q 3, and by 0.9% in Q 4, respectively. The general GDP growth in 2017 was 1.5%.

Dynamics of the indicator was consistent with the general economic trends in this period. So, industrial production index fell by 3.4% in 2015 due to a decreasing real income of the population and a shrinking consumer demand. In 2016 and 2017 due to the implementation of the import substitution program, preparation of facilities to FIFA World Cup and decreasing rate of the Central Bank (in 2017), the industrial production growth amounted to 1.1% in 2016 and in 2017 it amounted to 1.0% accordingly.

In the period of 2012-2014 there was a growth in the demand for steel products in Russia. In the 2nd half of 2014, due to the economic crisis on the domestic market there was a drastic decrease of apparent consumption. This trend continued in 2015-2016: consumption of finished rolled steel products decreased generally by 5.9% in 2015 vs 2014 and by 4.9% in 2016 vs 2015, accordingly. This trend changed in 2017 when steel products apparent consumption grew by 6.0%.

Despite the adverse economic conditions of recent years, the Russian steel industry retains a high level of competitiveness due to the relatively low costs of production, improved technology, efficient management of production and sale of products. Mechel's share in manufacture of steel rolled products (not including production of pipes) has remained approximately at the same level

since 2015 and amounted to 5.6% in 2015, 5.6% in 2016 and 5.5% in 2017 respectively (source: Metal-Courier Information Agency).

Coal industry was adversely affected by economic difficulties faced in 2012 and the crisis of 2014 as well. In 2012 the share of Mechel mining enterprises in coking coal mining was 20% (source: State Enterprise "CDU TEK"). In 2013 the share of the Company remained at the same 20% level. In 2014 the share of the Company reduced to 18.3%. In 2015 the share of the Company reduced to 16.6%. In 2016 The share of the Company in coking coal mining grew up to 18.5% due to a 14.2% increase in mining volumes (up to 15.6 mln ton) of Mechel mining enterprises. In accordance with the data provided by State Enterprise "CDU TEK", in 2017 the share of the Company in coking coal mining went down again to reach 16.9%.

Steam coal market is mainly regulated by such factors as consumption by power generating companies, coal demand and supply balance, changes in tariffs and seasonality. 2012 is characterized by general growth in steam coal mining volumes in the Russian Federation. In 2013 the mining volumes reduced by 2.8% as compared to 2012. In 2014 teal coal mining volumes grew by 1.8% vs. 2013 and in 2015 they grew by 4.1%. In 2016 steam coal mining volumes in the Russian Federation grew by 3.4% and amounted to 293.3 mln ton. In 2017 the growth was 4.2% vs. 2016 and by end of the year steam coal mining volumes in the Russian Federation reached 305.6 mln ton, according to the information provided by Metal Expert.

The tendencies in the market of mining and sales of iron ore, nickel and other products of the mining industry coincide with those of the steel market.

The average price for iron ore concentrate in 2012 reduced by 23% in the global market and by 20% in the domestic market (in accordance with the information provided by MMI) due to a difficult macroeconomic situation in China, bad tendencies ruling in the steel market and speculative policy of consumers. In 2013 the average price for iron ore concentrate grew by 5% in the global market and by 4% in the domestic market. In 2014 the average price for iron ore concentrate went down by 28% in the global market and by 14% in the domestic market followed by 43% slump in the global market and 9% decrease in the domestic market in 2015. In 2016 the prices for iron ore concentrate in the global market grew by 4% and reached 58 \$/dmt CFR China. The growth resulted from growing prices for rolled steel products and growing demand for high quality imported iron ore raw materials in China. 2017 resulted in the average price CFR China for iron ore concentrate with 62% Fe content amounting to 71 \$/dmt (+22% as compared to 2016). In the domestic RF market the prices for iron ore concentrate grew by 8% in 2016 vs. 2015 and reached 2231 ruble/ton FCA. According to the information provided by MMI, 2017 resulted in the average price for iron ore concentrate in RF amounting to 3303 ruble/ton FCA (net off VAT), which is 48% higher than in 2016. In future the situation in the market will depend on the demand and supply balance in the industry that, in its turn, depends on the demand of steel companies, and on the implementation by leading world producers of their strategic plans .

7.94 mln ton of coking coal concentrate, 3.08 mln ton of coal for steel industry (anthracites and PCI), 6.14 mln ton of steam coal, 2.51 mln ton of iron ore concentrate and 2.69 mln ton of coke were sold by all mining enterprises of Mechel in 2017.

The total aggregated production volume demonstrated by all enterprises of the Steel Segment of Mechel amounted to 4.02 mln ton of pig iron and 4.28 mln ton of steel. 3.50 mln ton of rolled steel products, 651 thous. ton of metalware, 66 thous. ton of pipes, 67 thous. ton of ferrosilicon were sold.

The operating results of the Company fully coincide with the modern tendencies for the development of the mining and steel industries.

The consolidated revenue of the Group in 2017 amounted to 299.1 bn RUB, the net profit attributed to the shareholders of Mechel PAO amounted to 11.6 bn RUB, consolidated adjusted EBITDA amounted to 81.1 bn RUB (as per IFRS).

The Group operations are represented by the following three Segments:

- **Steel Segment:** it includes production and sales of steel semi-finished goods, rolled products from carbon steel and specialty steels, steel products of various shaped profiles, including stamping and forging, metalware, rails and ferrosilicon.

- **Mining Segment:** it includes mining and sales of coal (coking coal and steam coal) and by-product, coke and chemical by-products and chemicals, iron ore, provision of the Steel and Power Segments with raw materials as well as selling big volumes of raw materials to third parties.

- **Power Segment:** it includes generating and sales of electric and thermal power, provision of the Steel and Mining Segments with electric and thermal power as well as partial sales of electric and thermal power to third parties.

The above mentioned Segments embrace multiple subsidiaries, at that each Segment has its own management and offers various products and services.

High level of coal prices contributed significantly to the results demonstrated by Mining Segment. The situation in the steel market last year was more complicated. Nevertheless, by end of the year the situation stabilized and therefore the Steel Segment demonstrated good results. Prices for metcoals in 2017 were influenced by multiple factors, such as natural disasters in Australia, implementation of coal extraction and steel production volumes regulation policy in China, production related problems and difficulties with coal shipment in ports and at Australian mining assets. As a result, we faced rapid coking price fluctuations. The average annual price level exceeded our expectations significantly. The market of steel products was not so volatile although the results demonstrated in HY I and HY II differed much in terms of prices for finished goods and production costs. At the beginning of the year the cost of production was high in view of growing prices for coal and iron ore raw materials whereas the demand and global prices for many types of our products were low.

One of the main tasks set for the Mining Segment was to recover the mining volumes that dropped due to the absence of sufficient volumes of prepared coal reserves. Starting from HY II and throughout Q1 of this year certain measures were taken to increase stripping volumes: new equipment was purchased, investments were made into repair and maintenance works, contracts were signed with contracting agencies that have their own mining equipment.

Steel Segment focused on optimization of its products line. The Company reduced the sales of low margin products and increased the production of high added value products shape steel-rolled stock, rails and flat-rolled products, forgings and stampings, specialty steel products, metalware from high alloyed and stainless steel.

4. PRIORITY BUSINESSES

In accordance with the Charter of Mechel PAO, the main purpose of the Company's activities is making profit as well as satisfying the demand of legal and physical persons for products (works, services) produced (rendered, provided) by Company to full extend and with due quality.

The following are the activities that the Company may perform:

- investments in securities;
- coal extraction and processing operational management;
- steel production operational management;
- retail and wholesale trade operational management related to sales of steel, coal and other types of products;
- procurement and sales;
- organization of the process of products manufacturing and sales, of retail and wholesale trade;
- operational management of supply of materials and machinery and of sales;
- advising on marketing management, market researching;
- advising on companies financial management, design of accounting systems, production cost accounting programs, budget control and management procedures, etc.

The priority areas of the Company activities are as follows:

- rendering information and advisory services;
- investments in securities;
- advising on marketing management, market researching;
- advising on companies financial management, design of accounting systems, production cost accounting programs, budget control and management procedures;
- advising on human resources management;
- advising on efficiency and control planning, organization and assurance;
- advising on accounting and taxation, business operations and company management;
- granting trademark rights under license agreements.

Increasing the equity value of the business is the main criterium for selection of business of priority.

Important tasks to be faced by Company. Strategical purposes of the Company.

Our purpose is to become a leading producer of metcoals and steel products through using the potential of vertical integration and ensuring the maximum possible synergy between our production assets that are at the base of our business model. Our strategy is aimed at generating the maximum benefit from our mining and steel assets. We plan to focus upon the improvement of the effectiveness and upgrading of the segments of our business that we expect to improve the overall profitability of our business.

While focusing upon the improvement of the effectiveness of the main segments of our business we may also consider a possibility of alienation of some of our assets in order to minimize costs as well as to let financial or strategical investors participate in our core assets in order to reduce the debt load and to contribute to the development of our business.

5. REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF THE COMPANY DEVELOPMENT BY PRIORITY BUSINESSES OF THE COMPANY

Mining, steel, power, logistics and sales enterprises of Mechel are operating as a single production chain and form a single vertically integrated production complex having multiple cooperation ties. Some part of the products is sold in the market, another part serves as raw materials for the production of high added value products.

Plans for the Company development are considered and approved by Board of Directors of the Company on an annual basis.

In 2017 the Company managed to reach the targets of increasing the share of high marginal products. The program of purchasing mining equipment for the Mining Segment was implemented, a material part of the Company's debt portfolio was restructured.

The operating profit of the Group increased in 2017 as compared to 2016 mainly due to a combination of the following factors: growing prices for the products of the Mining and Steel Segments and a growth in the share of high added value products in the Steel Segment (rails, I beams).

The consolidated revenue of the Group in 2017 amounted to 299.1 bn RUB, the net profit attributed to the shareholders of Mechel PAO amounted to 11.6 bn RUB, consolidated adjusted EBITDA amounted to 81.1 bn RUB (as per IFRS). The growth in the net profit and in the adjusted EBITDA is mainly caused by growing selling prices.

The consolidated revenue of the Group in 2016 amounted to 276.0 bn RUB, the net profit attributed to the shareholders of Mechel PAO amounted to 7.1 bn RUB, consolidated adjusted EBITDA amounted to 66.2 bn RUB (as per IFRS). The growth in the net profit and in the adjusted EBITDA is mainly caused by growing selling prices. It was possible to generate net profit in 2016 mainly due to RUB exchange rate stabilization towards other currencies, especially towards US dollar.

The consolidated revenue of the Group in 2015 amounted to 253.1 bn RUB, the net loss attributed to the shareholders of Mechel PAO amounted to 115.2 bn RUB, consolidated adjusted EBITDA amounted to 45.7 bn RUB (as per IFRS). The growth in the net profit and in the adjusted EBITDA in 2015 is mainly caused by growing selling prices. The net loss in 2015 decreased mainly due to RUB exchange rate stabilization towards other currencies, especially towards US dollar.

As of December 31st 2017 the total liabilities of the Group exceeded its total assets by 244.1 bn RUB.

As of December 31st 2016 r. the total liabilities of the Group exceeded its total assets by 252.6 bn RUB.

As of December 31st 2015 r. the total liabilities of the Group exceeded its total assets by 261.9 bn RUB.

As of December 31st 2017 the net debt of the Group, not including fines and penalties related to overdue indebtedness amounted to 466,9 bn RUB.

As of December 31st 2016 the net debt of the Group, not including fines and penalties related to overdue indebtedness amounted to 469.8 bn RUB.

As of December 31st 2015 the net debt of the Group, not including fines and penalties related to overdue indebtedness amounted to 486.7 bn RUB.

6. INFORMATION ON THE POWER RESOURCES VOLUMES CONSUMED BY COMPANY IN THE ACCOUNTING YEAR

Type of power resource	Consumption volume in kind	Unit of measurement	Consumption volume, thous. RUB
Thermal power	360	Gcal	- *
Electric power	738 461	kWh	- *
Petrol fuel for transportation vehicles	25 148.35	l	- **

* Mechel PAO performs its operations in leased. According to the terms and conditions of the agreement, all costs related to the maintenance of the premises and payment for the consumed power resources (thermal power, electric power) shall be borne by Lessor.

** Transportation vehicles are not registered at the balance of the Company. Transportation services are performed based on transportation vehicles leasing agreements. According to the terms and conditions of the agreement, all costs related to transportation vehicles maintenance shall be borne by Lessor.

No other types of power resources except for those reflected in the table were consumed.

7. COMPANY DEVELOPMENT OUTLOOK

Our operational activities need capital investments to maintain production at the level sufficient to satisfy the demand for the produced products and capital investments to implement our business strategy. We followed our current investment policy focusing only on the facilities that are either close to being completely constructed or are of significant importance for our operations.

In the Mining Segment the Company will continue the development of the existing coal reserves, in particular, in order to sell higher volumes to third parties. It is intended by the Company to pay special attention to the development of Elga coal deposit that is one of the deposits having the biggest volumes of coal reserves in the world. Coking coal and iron ore production is a steady basis for Steel Segment. It is possible to use steam coal for power generation activities, which will make it possible for the Company to sell products with high added value, such as electric and thermal power, to the market, and to improve the level of self-sufficiency of the Mining and Steel Segments in energy. Nevertheless, in spite of having its internal reserves for power supply the Company intends to continue following its long-continued practice of buying raw materials from external suppliers and selling its products, including raw materials, to internal and external consumers in order to have additional opportunities for the Group to generate profit.

In Steel Segment the Company is planning to focus on the railway, engineering and construction markets. Commissioning of the universal structural mill at Chelyabinsk Metallurgical Plant made it possible to enrich the assortment of high added value products as well as to significantly improve the plant's level of competitiveness making it a supplier of a wide range of products for the railway and construction industries. As more and more new types of products manufactured by the universal structural mill are getting mastered and certified, the sales volumes of such products are also growing higher, which in the end will contribute to the implementation of the Import Substitution Strategy. The Company intends to improve the production capacity of the Group and the quality of its high

added value products to retain its leading position in the markets of special steels, stainless rolled products and steel ware in Russia.

The distribution network of the Company provides a stable basis for further sales development. The Company is able to quickly respond to any market changes and redirect its supplies not only within Russia but also abroad, which makes it possible to gain additional profit.

Another strategical priority of the Group is to develop its logistics facilities. Its own fleet of rail cars serves to provide the balance between transportation safety and costs efficiency. Development of the cargo in transit capacity of Port Posiet is a basis for the uninterrupted regular supplies of coal products to the Asian-Pacific Region. The growth in export-oriented coal produced by Mining Segment will lead to a necessity of further increasing the port facilities of the main export routes.

8. REPORT ON THE ANNOUNCED (ACCRUED) DIVIDENDS PAID ON THE COMPANY'S SHARES

The Company's dividend policy is determined by "Regulations on Dividend Policy" approved by resolution of the Board of Directors on January 19th 2016 (Minutes No. w/o dated January 20th 2016).

The Company's dividend policy is developed to ensure the most transparent and clear mechanism of determining the amount of dividends and their payment for shareholders and all interested parties, as well as to determine the strategy of the Company Board of Directors when preparing recommendations on the amount of dividends on shares, their payment conditions and procedure and on the date of defining a list of persons entitled for dividends receipt.

The main principles of the Company dividend policy are as follows:

- observance of the effective laws of the Russian Federation, Charter and internal documents of the Company;
- striving for the highest standards of corporate governance;
- improvement of the investment potential of the Company;
- ensuring positive dynamics in dividends amount provided that the net profit of the Company increases;
- striving to ensure the most convenient way for shareholders to receive dividends;
- ensuring the highest transparency of the mechanism for dividend amount setting.

It was resolved by Annual General Shareholders' Meeting dd. June 30th 2017 based on the results of 2016 financial year to pay dividends by privileged registered uncertified shares of the Company in the amount of 10 rubles 28 kopecks per share (MOM No. 1 dd. June 30th 2017).

July 11th 2017 was stated as the date of defining the list of persons entitled for receive dividends by privileged registered uncertified shares.

Dividend payment was effected by a bank transfer. The amount of 1,426,421,086 rubles 20 kopecks was spent for payment of dividends by placed privileged shares.

As of December 31st 2017 the dividends paid based on results of 2016 financial year amounted to 1,426,061 rubles.

Payment of dividends for the previous accounting periods was not effected due to the absence of shareholders' requests.

The indebtedness by dividends owed to the shareholders as of the end of the accounting period is 389 thousand rubles.

The indebtedness by dividends owed to the shareholders is related to the absence of the exact address details or bank details necessary to effect dividends payment. The indebtedness is going to be repaid as soon as respective requests for payment of uncalled dividends are received from shareholders (as per clause 9 of article 42 of the Federal Law No. 208-FZ “On Joint Stock Companies” dd. December 26th 1995).

9. DESCRIPTION OF MAJOR RISK FACTORS RELATED TO THE COMPANY ACTIVITY

Country and region risks

The Company has its business in the territory of the Russian Federation, and in a number of foreign countries, it is subjected to all risks related to political and economic situation in these countries. Geographical peculiarities of the regions where the Company has its business have no significant impact on its business. Risks related to disaster hazards and possibility of transport connection termination are minor.

Financial risks

The Company is prone to financial risks, including risks related to exchange rate, foreign currency rates, inflation and liquidity risks. To mitigate the above mentioned risks the Company is currently and as the case may be using its internal risk management related tools and reserves helping the Company to comply with its liabilities and obligations as well as is considering possibilities of applying hedging transactions in financial markets. The key target of financial risks management is to minimize the adverse effect of the below mentioned risks when meeting the strategical targets of the Company.

Interest rate risk

The Company is prone to interest rate risk. The Company’s debt portfolio consists of credits and bonded loans. The major part of its liabilities is based on a floating rate depending on the Key rate of the Bank of Russia, and an increase in the latter will result in increasing interest payment amounts for the Company. The growing debt portfolio servicing related costs may have an adverse effect upon the Company’s ability to pay its debts as well as upon the final results of the Company’s operational activities.

The same way an increase in a floating interest rate may produce an adverse effect upon the Group’s debt load because a significant share of the Group’s debt portfolio is also based on a floating interest rate, including floating rates depending on the Key rate of the Bank of Russia. An increase in the overall level of interest rates may result in the Group enterprises’ debt servicing becoming more expensive, which will produce an adverse effect upon their operational activities and upon their ability to pay dividends.

Exchange rate risk

Exchange rate risk is related to a growth in the cost of foreign currency towards ruble and does not produce any material adverse effect upon the Company's financial state because the Company does not have any significant financial liabilities in foreign currency.

The Group enterprises get some part of their profit in foreign currency and some part of the Group's financial liabilities (including liabilities under credits) is denominated in foreign currency as well. So, there is a probability of profit deficiency in case if ruble exchange rate grows versus the currencies of export contracts, and in case if ruble exchange rate decreases the debt load by credits denominated in foreign currency will increase.

Inflation risk

The Company faces the inflation risk that may produce an adverse effect upon its operational results. Prices increase may result in a growth in costs in rubles, including expenses for fuel, sources of power, cost of production related services and labor payment that are significantly sensitive to the general prices growth in the Russian market and therefore become a reason for a decrease in profitability indicators thus producing an adverse effect upon the financial results of the Company's activities.

Liquidity risk

Liquidity risk is related to the Company's cash flow and appears in case if the Company fails to fulfill its financial liabilities within the time limits set. Liquidity risk is often related to interest rate, exchange rate and inflation risks. Liquidity risk may be faced by Group enterprises in case of a decrease in prices or demand for its products, which may result in a lack of cash for the debt servicing.

Production related risks

Subsidiaries of the Company are prone to production related risks.

The following factors may influence the production process of Enterprises: high level of fixed assets wear and tear, , untimely supply of raw materials, materials, spare parts limitations of natural monopolies and other factors. In order to prevent or mitigate the influence of production related risks the Enterprises perform detailed planning, forecasting of the production plan results and develop the measures of responding to production related risks.

Legal risks

Legal risks related to making amendments to the laws that affect the Issuer's activity in the internal market, including:

- foreign currency laws.

Changes in the currency exchange regulation have no direct impact on the Company business. However, should the current laws be amended the Company is determined to plan its activity taking into account such amendments. In this regard the Company assesses the risks of the foreign currency laws amendment to be minor;

- tax laws.

Changes in the Russian tax laws may adversely affect the Company activity, in particular:

- introducing amendments or additions into the laws on taxes and levies related to tax rates growth;
- toughening of requirements to documents confirming the use of reduced rates stipulated in the international treaties on avoidance of double taxation.
- introducing of profit taxation of the controlled foreign companies.
- introducing new types of taxes.
- cancellation of tax benefits in subjects of the Russian Federation.

Due to amendments of the current tax laws there is a possibility for the Company to increase its expenses on taxes payment and mandatory payments.

in particular:

- introduction of the profit taxation procedure for foreign companies controlled by Russian tax residents. Mechel PAO can be recognized as the controlling entity for foreign companies (direct and indirect participation), profit of controlled foreign companies can be included into the tax base in the Russian Federation.

- profit tax rate as regards dividend income of Russian companies from Russian and foreign companies increases up to 13% (earlier the applicable rate was 9 %);

- disclosure of the beneficial ownership, beneficial recipients of income and the tax residency of legal entities according to their actual place of business is a prerequisite for the application of tax exemptions and preferences, including reduced tax rates provided for in international treaties on avoidance of double taxation.

Possible growth of the rate for taxes paid by the Company in the course of its production and financial activity may result in the Company expenses increase and reduction of monetary funds remaining after current business financing. Should current procedure and terms of taxation be changed the Company is determined to plan its financial and economic activity taking into account such changes;

- customs clearance and duties have no significant impact on the Company business;
- no licensing of core business of the Company or licensing rights to use facilities limited in circulation as management advisory activity is not subject to licensing in the territory of the Russian Federation and the Company does not use in its activity facilities limited in circulation;
- changes in the judicial practice on the issues related to the Company activity (including on the issues of licensing) that may adversely affect its performance and results of current court proceedings the Company is involved in, have no significant effect.

Risks related to the Company operations

Risks related to possible responsibility for the debts of third parties, including subsidiaries and affiliates, may have significant effect on the Company. The Issuer has sureties issued to secure for the obligations of third parties, in particular of subsidiaries and affiliates of the Issuer. Performance of such obligations is controlled by Issuer, however there is a risk of filing claims by creditors as regards such obligations performance within the issued sureties should third parties, in particular affiliates and subsidiaries of the Issuer, fail to perform their obligations.

Pursuant to provisions of the Civil Code of the Russian Federation and Articles 3 and 6 of the

Federal Law On Joint Stock Companies, the Company may be jointly liable with its affiliate for the transactions concluded by the latter to follow the Company instructions. Should the Company affiliate be insolvent (bankrupt) through the Company fault the Company shall bear subsidiary liability for the affiliate company debts.

Risks related to the possibility of consumers loss with turnover with such consumers minimum 10 per cent of the total revenue from the services rendering by the Company have no significant effect on the Company.

There are no risks peculiar to the Issuer only.

Risks related to the impossibility of extending the issuer's license to perform particular type of activity or to use facilities limited in circulation (including natural resources): none.

Risks related to current court proceedings the Company is involved in.

Currently Mechel PAO is a party to court proceedings that can entail significant consequences for the Company operations. Risks related to court proceedings assessed by the management as "probable" can be considered as risks capable to significantly affect financial performance of the Company. Risks related to court proceedings assessed by the management as "possible" or "insignificant" cannot be considered as risks capable to significantly affect financial performance of the Company.

The below mentioned risks are also assessed by management as not material:

- According to the notification of London Court of International Arbitration(LCIA), VTB JSC and VTB Capital PLC lodged 14 claims in respect of Mechel enterprises to collect the amounts of all the indebtedness by syndicated loan agreements signed by Southern Kuzbass and Yakutugol with the syndicate of banks (including those that will appear within the litigation process) that must be paid by surety/borrower (respectively) under the terms and conditions of the guarantee/loan agreement (within the limit stated in the guarantee) as well as interest, litigation costs and other amounts that may be further awarded by arbitration court. 2 out of 14 claims are against Mechel PAO (as a surety). For the moment the claimants applied to LCIA by each claim it is claimed to collect 16,243,830.77 USD of the indebtedness by loan granted to Yakutugol by syndicate of banks and 16,253,578.91 USD of the indebtedness by loan granted to Southern Kuzbass by syndicate of banks. Prolongation of the moratorium is confirmed till April 30th 2018. The date of further prolongation is under discussion.

Atrix B.V. Private Company Limited by Shares applied to the Arbitration court of the Rostov Region with a claim to Mechel PAO, Mechel Mining Management Company OOO, Mechel-Steel Management Company OOO, NK INVEST OOO, G.K. Somov for recovery of damages jointly and severally in the amount of 10,880,244,750.64 RUB (taking into account the increase of claim amount). The claim was satisfied to full extent on July 13th 2017 (the claim amount was increased during the court session) and about 12.7 bn rubles was collected. The appeals instance left the above mentioned court decision unchanged on September 13th 2017. The claim was not satisfied. The decision of the first instance and the resolution of the appeals instance were cancelled by cassational instance on November 21st 2017 and the case was remanded for retrial. REMZ OOO was refused to file the cassation claim to the Chamber for Commercial Disputes of the Supreme Court of Russian Federation by order of the Supreme Court of the Russian Federation dd. February 19th 2018. On March 13th 2018 (resolutive part) the claims were dismissed by court. The consideration of the claim of appeal was appointed for June 8th 2018.

Within cases on bankruptcy of Zlatoust Metallurgical Plant OAO and Guryevsk Metallurgical Plant OAO (debtors) under consideration by the Arbitration court of the Chelyabinsk Region and the Arbitration court of the Kemerovo Region, respectively, Rostov Electric and Metallurgical Plant OOO and LOMprom Rostov OOO applied with a requirement to bring Mechel PAO to subsidiary

liability for debtors' obligations The applicants allege that Mechel PAO was an entity controlling debtors and in accordance with the Federal Law "On insolvency (bankruptcy)" it shall be liable in the amount equal to the aggregate amount of creditors' claims that remained unpaid due to insufficiency of debtors' property The amount of claims is currently not determined, next court sessions will be held on May 22nd 2018 and May 18th 2018, respectively.

The below risk is assessed by the management as possible.

To LCIA towards Yakutugol AO and Southern Kuzbass PAO (as borrowers as well as towards Yakutugol AO, Southern Kuzbass PAO, Mechel PAO, Mechel Mining AO, KGOK PAO, Mechel Carbon AG and Mechel Carbon Singapore (as guarantors) within syndicated loans dated September 6th 2010 (with subsequent amendments) in the amount of 501,981,997.25 US dollars arbitration claims were filed by several creditors (ING Bank NV; ICBC (London) Plc; JSC UniCredit Bank; UniCredit SpA; Caterpillar Financial Services Corporation; ICU Advisory Limited; London Forfeiting Company Limited; Federated Project and Trade Finance Core Fund; Barclays Bank Plc; Arvo Investment Holdings Sarl; and Akacia Limited) for recovery of debt within syndicated loans in the amount of 230,963,856.54 USD (including 203,946,666.77 of the principal debt and 27 017 189,77 of interest within syndicated loan of Southern Kuzbass PAO and in the amount of 230,097,186.95 USD (including 203 946 666,77 of the principal debt and 26 150 520,18 of interest) within syndicated loan of Yakutugol Holding Company AO. During the court procedure the claims were updated and corrected by 208,946,666.75 USD of the principal debt and by 32,538,931.75 USD of interest) within syndicated loan of Southern Kuzbass PAO and by 208,946,666.76 USD of the principal debt and by 31,163,700.95 USD of interest) within syndicated loan of Yakutugol Holding Company AO. In the course of the process some creditors withdrew from the arbitration procedure, namely ICBC (London) Plc; AO UniCredit Bank; UniCredit SpA; Barclays Bank Plc; Arvo Investment Holdings Sarl, ICU, Caterpillar Financial Services Corporation. The defendant filed a declaration stating that the tribunal did not have necessary powers but the declaration was dismissed. This dismissal is in the process of appealation. The appealation in the jurisdiction of the Supreme Court of England is scheduled for June 25th 2018. Hearings that may influence the results of the mail claim of the creditors will take place on June 22nd 2018 in LCIA . Work related to debt restructuring is in progress.

Other court proceedings the Company is involved in, cannot significantly affect current operations of the Company irrespective of their outcome.

Social Risks

Social risks are related to the presence of the trade unions at the enterprises of the Company capable of influencing their activities within labour legislation.

57% of the total headcount of Mechel Group is represented by trade unions as of December 31st, 2017.

In accordance with the RF legislation, there is a certain number of cases when trade unions are legally entitled to strike, which may result in the downtime and interruption of the production processes of the enterprises the way it happens from time to time with other Russian companies having powerful trade unions representation.

The Company is socially-oriented and performs certain activities to develop social partnership at Group Enterprises, which makes it possible to eliminate such risks, nevertheless in case if

interactions with trade unions and labor teams become worse, there still remains a probability of getting strikes, lockouts or delays in the renewal of collective agreements.

Branch agreements were prolonged in 2017 for Coal and Steel segments and the major part of collective agreements was renewed by Group enterprises. If Group Enterprises are unable to prolongate collective labour agreements based on similar terms and conditions in future, or if the employees are unsatisfied with the terms and conditions of such collective agreements and take any collective actions in this respect, it may produce material adverse effect on the Company business, its financial state, operational results and prospects.

Reputational risks

The Company and its subsidiaries may be at risk of negative view of the financial sustainability because of lawsuits from creditors and counterparties of the company.

The subsidiaries were at risk of negative view of the financial sustainability due to ongoing negotiations with creditors about debt restructuring, a number of which at the time of publication of the statements were still in progress.

The Company is focused on implementation of a system of measures aimed at development and maintenance of a sustainable business reputation - it discloses information in accordance with the laws of the Russian Federation, rules of the New York Stock Exchange, international standards of corporate governance through the corporate website www.mechel.ru. Company management regularly appear in the media to explain the Company's stance on various issues.

10. INFORMATION ABOUT THE TRANSACTIONS MADE BY COMPANY IN THE ACCOUNTING YEAR

10.1. Information about the transactions entered into by the company in the accounting year that are major transactions in accordance with the Federal Law on Joint Stock Companies

In accordance with article 92.2. of the Federal law No. 208-FZ “On Joint Stock Companies” dd. December 26th 1995 and with the ordinance of the RF government No. 10 dd. January 15th 2018 we do not disclose in this section the information related to major transactions performed with the Russian legal entities covered by restrictions imposed on them by foreign countries, state associations and (or) unions and (or) state (international) institutions of foreign countries or state associations and (or) unions.

No major transactions with other persons were performed by Company in the accounting period.

10.2. A list of the transactions settled by the Company in the accounting year recognized in accordance with the Federal Law On Joint Stock Companies as related-party transactions

In accordance with clause 70.3 of chapter 70 of the “Provisions on Information Disclosure by Issuers of Issue-grade securities” (approved by the Bank of Russia on December 30th 2014 No.454-II) there is a reference to the document containing a list of related party transactions made by Company in the accounting period.

Document name: “Report on the Related Party Transactions Made by Mechel PAO in 2017”.

The document can be found on the following web-page:
http://www.mechel.ru/shareholders/corporate_governance/shareholders_meeting/;
<http://www.e-disclosure.ru/portal/company.aspx?id=1942>.

Document approval date: approved on May 31th 2018 by decision of the Board of Directors of Mechel PAO (MOM w/o number dd. May 31st 2018).

The accounting period described in the document: 2017.

11. REMUNERATION PAYMENT AND EXPENSES COMPENSATION POLICIES FOLLOWED BY COMPANY

Remuneration shall be paid to Chief Executive Officer in the amount and based on the terms and conditions of the Labor Contract signed by such Chief Executive Officer and the Company.

Remuneration shall be paid to the members of the Board of Directors of the Company based on the respective decision of the General Shareholders Meeting in compliance with the procedure prescribed by Regulation on Payment of Remuneration to Members of the Board of Directors of Mechel PAO and of Compensation for the Expenses Related to the Fulfillment by Members of the Board of Directors of their Functional Duties approved by General Shareholders’ Meeting of Mechel PAO.

The Regulation above defines the amount of annual remuneration that depends inter alia on the membership in and/or control over committees of the Board of Directors. There are not any additional payments or compensations in case of early termination of powers of BD members resulting from transfer of control over the Company or from any other circumstances.

The Regulation above also provides for compensating the members of the Board of Directors of Mechel PAO for the costs actually borne by them, including travelling expenses related to round trips to the place of the meeting of the Board of Directors and of its committees and back, accommodation costs and other expenses related to the activities of the Company.

The incentive system is in place to financially motivate the members of the Board of Mechel PAO to achieve strategic goals and improve the economic effectiveness of the management.

The incentive system for the Chairman and members of the Board includes the following elements:

- official salary;
- premium for results;
- one-time premium paid to a manager for contributing to the development of the Company.

Board members are provided with policies of voluntary insurance and with paid mobile services and are entitled for the benefits and compensations prescribed by Labor Code of the Russian Federation, federal laws, statutory and regulatory enactments of the Russian Federation, internal bylaws of the Company (payment (compensation for) representation costs, business trip expenses, transportation services).

The information by each Management Body of the Company (but for Chief Executive Officer) shall include the amount of all types of remuneration paid during the accounting period:

The total amount of remuneration, including salary, bonuses, commission fees, benefits and/or compensations for expenses borne paid by Issuer to the members of the Board of Directors for 12 months of 2017 is RUB 159,321,000 rubles.

The total amount of remuneration, including salary, bonuses, commission fees, benefits and/or compensations for expenses borne paid to the Board members of the Company for 12 months of 2017 is RUB 117,186,000.

12. REPORT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

ANNUAL REPORT OF THE AUDIT COMMITTEE

This report was prepared in accordance with the requirements prescribed by article 306 of Regulation S-K of the US Stock and Exchange Commission as well as the regulatory documents of other leading audit companies.

Report on the Work of the Audit Committee for the period from May 2016 till May 2017

This Report on the Work of the Audit Committee for the period from May 2016 till May 2017 was prepared in accordance with the requirements prescribed by article 306 of Regulation S-K of the US Stock and Exchange Commission, Recommendations of the Central Bank (Letter No. 06-52/2463 dd. April 10th 2014) and regulatory documents of other leading companies operating in the fields of audit and securities.

Audit Committee consists of only independent directors in accordance with the standards for admission of securities to the NY Stock of Exchange and Rule 10A-3 of the Law on Securities Trading dd. 1934.

The effective edition of the Regulation on the Audit Committee of Mechel PAO (further on referred to as the "Regulation") that is an internal regulatory document of the Company regulating the activities of the Audit Committee was approved by Board of Directors of Mechel PAO on May 19th 2016.

According to the Regulation, the main purpose of the Audit Committee is to facilitate an effective performance of the functions of the Board of Directors in the part of control over the financial and operational activities of the Company, to develop recommendations as per questions within its competency and submit them to the Board of Directors.

The main tasks of the Audit Committee were brought in compliance with the Recommendations of the Central Bank related to compliance with Corporate Governance Principles.

The composition of the Audit Committee during the period from March till June 2016 consisted of the following persons:

Vladimir Y. Korovkin – Chairman of the Audit committee;

Alexander N. Kotsky – Audit Committee member;

Vladimir V. Gusev - Audit Committee member.

The composition of the Audit Committee starting from June 2016 and up to now consists of the following persons:

Vladimir Y. Korovkin - Chairman of the Audit committee;

Alexander N. Kotsky - Audit Committee member;

Alexander D. Orischin - Audit Committee member.

IFRS 2015 consolidated financial statements were considered by Audit Committee in May 2016 and discussed with the Company management within its functional duties. US GAAP statements for 6 months of 2015 and 9 months of 2015 had been considered by Audit Committee before that. IFRS 2015 consolidated financial statements were considered and approved by Audit Committee in April 2017. The discussion included not only the question of the applicability of book accounting principles but also questions related to their quality, reasonableness of material judgements and accuracy of the information disclosed in the financial statements.

The question of correctness of applying book accounting principles were discussed by Audit Committee with Ernst&Young OOO, and independent external auditor, as well as other questions that are to be considered by Audit Committee in accordance with the Provisions of Audit Standards No. 61 "Interactions with Audit Committees" (as amended), other standards of the Supervisory Board exercising control over book accounting in public companies (USA), rules of the US Stock and Exchange Commission and other applicable regulations. Besides, the question of the independency of the external auditor on the Company management was discussed by Audit Committee with Ernst&Young OOO.

Completion status of the Remediation plan developed to remediate the deficiencies revealed by audit in 2015 and preparation of the Remediation plan based on the results of the audit performed in 2016 were discussed by Audit Committee with the Company management and the external independent auditor.

The Plan for Integrate Audit of the consolidated statements for 2016 and the Plan of Work for 2017 were discussed by Audit Committee with the external independent auditor and with the Internal Audit Department.

Regular meetings with the Internal Audit Department were held by Audit Committee to discuss the results of the audit performed.

Questions related to the functioning of the integrated Risk Management System were considered by Audit Committee.

Meetings with the participation of the representatives of the external independent auditor were held by Audit Committee in 2016-2017 to approve the services to be provided by auditor. In particular, the Audit Committee approved provision by Ernst&Young OOO of such services as audit of the consolidated financial statements of Mechel PAO and Mechel Group enterprises prepared based on IFRS for the years 2016, 2017 and 2018, audit and preparation of the report on the effectiveness of the system of the internal controls applied during preparation of such statements; review engagement of IFRS consolidated financial statements of Mechel PAO for 6 months of 2017 and 6 months of 2018 with the comparative data as well as audit of form 20F for the NY Stock of Exchange in accordance with the rules of the US Stock and Exchange Commission (SEC). Audit Committee also approved the provision by Ernst&Young OOO of services related to transfer pricing and accounting of complex derivative financial instruments.

Audit Committee performed assessment of the Auditor's Opinion in respect of the book accounting for 2016 provided by external auditor Energy Consulting stating that the auditor performed the audit and issued its opinion in accordance with the established procedure and on a legal basis confirms the reliability of the book accounting (financial) statements and compliance with the book accounting

procedure with the legislation of the Russian Federation. Audit Committee recognized that the Auditor's Opinion in respect of the book accounting statements of Mechel PAO prepared based on the results of operational and financial activities in the accounting year 2016 and in accordance with the effective laws of the Russian Federation, reflects the real state of business in PAO Mechel.

12 meetings were held by Audit Committee during the accounting period (3 in praesentia and 9 in form of conference calls) where questions were discussed related to the approval of IFRS consolidated financial statements, approval of the services to be provided by external auditor, analysis of the results of operational activities of the Company both in general and within certain material aspects, as well as the improvement of respective mechanisms of the internal control and risks management.

Chairman of the Audit Committee

Vladimir Y. Korovkin

Report on the Work of the Audit Committee for the period from June 2017 till March 2018

This Report was prepared in accordance with the requirements prescribed by article 306 of Regulation S-K of the US Stock and Exchange Commission, Recommendations of the Central Bank (Letter No. 06-52/2463 dd. April 10th 2014) and regulatory documents of other leading companies operating in the fields of audit and securities.

Audit Committee consists of only independent directors in accordance with the standards for admission of securities to the NY Stock of Exchange and Rule 10A-3 of the Law on Securities Trading dd. 1934.

The effective edition of the Regulation on the Audit Committee of Mechel PAO (further on referred to as the "Regulation") that is an internal regulatory document of the Company regulating the activities of the Audit Committee was approved by Board of Directors of Mechel PAO on May 19th 2016.

According to the Regulation, the main purpose of the Audit Committee is to facilitate an effective performance of the functions of the Board of Directors in the part of control over the financial and operational activities of the Company, to develop recommendations as per questions within its competency and submit them to the Board of Directors.

The main tasks of the Audit Committee were brought in compliance with the Recommendations of the Central Bank related to compliance with Corporate Governance Principles.

The composition of the Audit Committee during the period from June 1st 2017 till June 29th 2017 consisted of the following persons:

Vladimir Y. Korovkin - Chairman of the Audit committee;

Alexander N. Kotsky - Audit Committee member;

Alexander D. Orischin - Audit Committee member;

The composition of the Audit Committee starting from June 30th 2017 and up to now consists of the following persons:

Georgy G. Petrov - Chairman of the Audit committee;

Alexander N. Kotsky - Audit Committee member;

Alexander D. Orischin - Audit Committee member.

IFRS consolidated financial statements for 6 months 2017 and 9 months 2017 were considered by Audit Committee within its functional duties. The discussion included not only the question of the applicability of book accounting principles but also questions related to their quality, reasonableness of material judgements and accuracy of the information disclosed in the financial statements.

The question of correctness of applying book accounting principles were discussed by Audit Committee with Ernst&Young OOO, and independent external auditor, as well as other questions that are to be considered by Audit Committee in accordance with the Provisions of Audit Standards No. 61 “Interactions with Audit Committees” (as amended), other standards of the Supervisory Board exercising control over book accounting in public companies (USA), rules of the US Stock and Exchange Commission and other applicable regulations. Besides, the question of the independency of the external auditor on the Company management was discussed by Audit Committee with Ernst&Young OOO.

Completion status of the Remediation plan developed to remediate the deficiencies revealed by audit in 2016 and preparation of the Remediation plan based on the results of the audit performed in 2017 were discussed by Audit Committee with the Company management and the external independent auditor.

The Plan for Integrate Audit of the consolidated statements for 2017 and the Plan of Work for 2018 were discussed by Audit Committee with the external independent auditor and with the Internal Audit Department.

Regular meetings with the Internal Audit Department were held by Audit Committee to discuss the results of the audit performed and the results of the assessment of the Internal Control System of the Company.

The Internal Control System was recognized effective in 2017.

Questions related to the functioning of the integrated Risk Management System were considered by Audit Committee and the effectiveness of such system was analyzed. The functioning of the integrated Risk Management System was recognized satisfactory. Measures to improve the effectiveness of the integrated Risk Management System were agreed by Audit Committee.

The results of anti-fraud activities performed by subsidiaries and affiliates of the company are discussed by Audit Committee on a regular basis.

Meetings with the participation of the representatives of the external independent auditor were held by Audit Committee in 2017-2018 to approve the services to be provided by auditor. In particular, the Audit Committee approved provision by Ernst&Young OOO of services related to transfer pricing, consulting services related to the review of salaries and compensations, assistance in providing the creditor (VTB (PJSC)) with the compliance certificate confirming that the covenants are met.

Audit Committee performed assessment of the Auditor’s Opinion in respect of the book accounting for 2017 provided by external auditor Energy Consulting stating that the auditor performed the audit and issued its opinion in accordance with the established procedure and on a legal basis confirms the reliability of the book accounting (financial) statements and compliance with the book accounting procedure with the legislation of the Russian Federation. Audit Committee recognized that the Auditor’s Opinion in respect of the book accounting statements of Mechel PAO prepared based on the results of operational and financial activities in the accounting year 2017 and in accordance with the effective laws of the Russian Federation, reflects the real state of business in PAO Mechel.

10 meetings were held by Audit Committee during the accounting period (3 in praesentia and 7 in form of conference calls) where questions were discussed related to the approval of IFRS consolidated financial statements, approval of the services to be provided by external auditor,

analysis of the results of operational activities of the Company both in general and within certain material aspects, as well as the improvement of respective mechanisms of the internal control and risks management.

Chairman of the Audit Committee

Georgy G. Petrov

The Report on Compliance with Corporate Governance Principles can be found in respective Appendix hereof.

13. APPENDIX TO THE ANNUAL REPORT

13.1. The Report on Compliance with Corporate Governance Principles can be found in respective Appendix hereof.

13.2. CONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2017