

**AUDITOR'S OPINION**

**on accounting statements of Mechel PJSC  
for the period of January 1 to December  
31, 2019**

**Moscow  
2020**

## **AUDITOR'S OPINION**

### **for shareholders of Mechel Public Joint Stock Company**

#### **Opinion**

We audited the attached accounting statements of Mechel Public Joint Stock Company (OGRN (Primary State Registration Number) 1037703012896, Russian Federation, Moscow) that comprise a Balance Sheet as of December 31, 2019, 2019 Financial Results Statement, appendices to the Balance Sheet and Financial Results Statement, including the Statement of Changes in Equity and Cash Flow Statement for 2019, notes to the Balance Sheet and Financial Results Statement for 2019.

In our opinion the attached annual accounting statements give a true and fair view in all material respects of the financial position of Mechel Public Joint Stock Company as of December 31, 2019, its financial results and cash flow for 2019 in accordance with the accounting standards of the Russian Federation.

#### **Basis for the auditor's opinion**

We conducted audit in compliance with International Standards on Auditing (ISA). Our responsibility in accordance with these standards is described in "Responsibility of the Auditor for Audit of Annual Accounting Statements" section hereof. We are independent of the audited entity in accordance with the Rules of Independence for Auditors and Audit Companies and Code of Ethics for Professional Auditors that are in compliance with the Code of Ethics for Professional Accountants developed by the Accounting Professional and Ethical Standards Board and we fulfilled other duties in accordance with the above mentioned professional ethics requirements. We believe that the audit evidence obtained by us is sufficient and appropriate to serve as a basis for expressing our opinion.

#### **Material uncertainty in respect of the entity's going concern**

We draw your attention to section 21 of the notes (text) to the Balance Sheet and the Financial Results Statement for 2019 where it is stated that the audited entity's short-term liabilities as of December 31, 2019 exceed its total current assets by 41,993,874 thousand rubles. As it is noted in section 21 of the notes, the above mentioned events or circumstances are indicative of the material uncertainty that may cast significant doubts upon the ability of the audited entity to continue as a going concern.

We do not express a modified opinion in respect of this issue.

#### **Key audit issues**

The key audit issues are the issues that we consider, based on our professional judgement, to be the most important for audit of the annual accounting statements for the current period. These issues were analyzed in the overall context of audit of the annual accounting statements and in the process of forming our opinion on such statements, and we do not express any separate opinion on such issues. In addition to the issue described in section "Material uncertainty in respect of the

entity's going concern" we defined the following issues as the key audit issues to be addressed in our opinion.

**1. *Evaluation of the deferred tax assets – note 11 (tables), notes 15 (text) to the Balance Sheet and Financial Results Statement***

The annual accounting statements of the audited entity contain significant deferred tax assets. The question of the probability of their repayment as a result of getting taxable profit in subsequent accounting periods is an important question from the view point of deciding upon if it is justifiable to reflect deferred tax assets in the Balance Sheet or if it is necessary to write them off as a result of reclassification of a temporary difference into a constant one.

Assessment of the recoverability of the deferred tax assets (their ability to generate financial benefits in future) was performed by the audited entity and involved various assessments and judgements due to the complexity of such assessment based on forecasts. The forecast model of future cash flows of consolidated Mechel Group provided to the auditor is based on the estimated variations of world prices for coking coal, steel and other types of products of Mechel Group companies till 2027 and includes the information making it possible to arrive at a reasonable judgement about recoverability of the deferred tax assets.

Our audit procedures with regard to evaluation of the deferred tax assets included the following: checking the arithmetic accuracy of the calculations in the model and completeness of the data used; analysis of the appropriateness of the assumptions used in the calculations; assessment of the disclosures and correctness of the use of the evaluation judgements.

**2. *Loan liabilities classification based on maturity dates – note 5.3 (tables), notes 13 (text) to the Balance Sheet and Financial Results Statement.***

The annual accounting statements of the audited entity include material liabilities under the credits and loans received (hereinafter referred to as "loan liabilities"). Compliance with the terms and conditions of the credit and loan agreements, especially given the value of the loan liabilities, is an important aspect to prevent credit risks. Besides, the proper monitoring of maturity dates of the liabilities under such agreements is required not only to ensure compliance with them but also to ensure correctness of figures in the Balance Sheet and liquidity assessment.

Our audit procedures included the following: checking the correctness of loan liabilities classification based on the maturity dates specified in loan agreements; analysis of the actual compliance by the audited entity with all the terms of loan liabilities repayment, assessment of the state of the system of internal control over this process.

**Information other that included in the annual accounting statements and auditor's opinion on them**

The management is responsible for other information. Other information includes the annual report of the executive body but does not include annual accounting statements and our auditor's opinion on them.

Our opinion on the annual accounting statements does not cover other information and we do not provide any conclusion that ensures, in any form, confidence in respect of such information.

With regard to auditing the annual accounting statements our responsibilities include familiarizing ourselves with other information mentioned above as soon as it is provided to us and considering if there are any material discrepancies between other information and the accounting statements or the knowledge acquired by us during the audit procedure and if other information contains any other possible material misstatements. If reviewing the annual report of the executive body we arrive at a conclusion that it contains a material misstatement, we are supposed to notify the management and the Chairperson of the Audit Committee of the Board of Directors of the audited entity accordingly and demand that adjustments should be made to the annual report.

### **Responsibility of the management and Chairperson of the Audit Committee of the Board of Directors of the audited entity for the annual accounting statements**

The management is responsible for preparing and giving a true and fair presentation of these accounting statements in accordance with the accounting standards of the Russian Federation as well as for the internal control system necessary for preparing the accounting statements free from material misstatement, whether due to fraud or error.

When preparing the annual accounting statements the management is responsible for assessment of the audited entity's ability to continue as a going concern, for the appropriate disclosure of the information related to going concern and for producing statements based on the going concern assumption except for the cases where the management plans to liquidate the audited entity, cease its operations or if the management does not have any other alternative but liquidating or ceasing operations.

The Chairperson of the Audit Committee of the Board of Directors is responsible for exercising supervision over the preparation of the annual accounting statements of the audited entity.

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

Our purpose is to gain reasonable confidence that the annual accounting statements are free from material misstatement, whether due to fraud or error, and to prepare our auditor's opinion. The reasonable confidence is a high degree of confidence but is not a guarantee that the audit conducted in accordance with ISA always reveals material misstatements if they exist. Misstatements may be a result of fraud or error and are considered material if it is possible to reasonably assume that they, individually or jointly, can affect the economic decisions made by users based on such accounting statements.

In the course of the audit conducted in accordance with ISA we use professional judgements and maintain professional skepticism throughout the audit. Besides, we do the following:

- reveal and assess risks associated with material misstatements in annual accounting statements whether due to fraud or error; develop and perform audit procedures to respond to such risks; obtain audit evidence that is sufficient and reliable enough to serve as a basis for the auditor's opinion prepared by us. The risk of overlooking a material misstatement resulting from fraud is higher than the risk of overlooking a material misstatement resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or bypassing the internal control system;
- gain understanding of the internal control system that is relevant to the audit purposes in order to develop the audit procedures corresponding to the circumstances but not to express an opinion on effectiveness of the internal control system of the audited entity;

- assess the appropriateness of the accounting policy used, reasonableness of the accounting estimates and the disclosure of information prepared by the management of the audited entity;
- make a conclusion on the appropriateness of the audited entity management using the going concern assumption and, based on the audit evidence obtained, a conclusion whether there exists a material uncertainty associated with the events or circumstances that may result in reasonable doubts about the audited entity's ability to continue as a going concern. If we arrive at a conclusion that there is a material uncertainty, we are supposed to draw attention in our auditor's opinion to the respective disclosure of information in the annual accounting statements or, if such disclosure is improper, make modifications to our opinion. Our conclusions are based on the audit evidence obtained before the date of our auditor's opinion. However, future events or circumstance may lead to the audited entity being unable to continue as a going concern;
- assess the overall presentation of the annual accounting statements, their structure and contents, including disclosure of information, and also assess if the annual accounting statements give a fair and true view of the transactions and events that form their basis..

We communicate with the management and Chairperson of the Audit Committee of the Board of Directors of the audited entity and informed them, inter alia, about the planned scope and duration of the audit as well as about material shortcomings of the internal control system revealed by the audit.

We also assert to the Chairperson of the Audit Committee of the Board of Directors of the audited entity that we complied with all the ethical requirements in terms of independence of auditors and informed those persons about all the relationships and other issues that may be reasonably considered as affecting the independence of auditors and about the appropriate precautionary measures where necessary.

Of all the issues communicated to the Chairperson of the Audit Committee of the Board of Directors of the audited entity we selected the ones that are of the most importance for audit of the annual accounting statements for the current period and, therefore, are the key audit issues. We describe these issues in our auditor's opinion except for the cases where public disclosure of information on such issues is prohibited by a law or regulation or where, in some rare cases, we reasonably believe that information on some issues should not be disclosed in our opinion because the negative consequences of such disclosure will exceed the socially significant benefits of it.

Audit Assignment Leader whose team conducted the audit that is the basis for the auditor's opinion,  
E. I. Potrusova

**Audit company:**

Energy Consulting Joint Stock Company,  
State Registration No. 1047717034640.

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Member of Self-regulatory organization of auditors "Auditor Association Sodruzhestvo" - (AAS),  
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