



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

for the six months ended June 30, 2021

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of public joint stock company Mechel and its subsidiaries (the Group) for the six months ended 30 June 2021, which comprise the interim condensed consolidated statement of profit and other comprehensive income, interim condensed consolidated statement of financial position, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows, and selected explanatory notes (interim financial information).

Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Emphasis of matter

We draw attention to Note 4 to the interim financial information, which indicates that, as of 30 June 2021, the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks as of 30 June 2021. As stated in Note 4, these events or conditions, along with other matters as set forth in Note 4 to the interim financial information, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.



E.V. Khramova
Partner
Ernst & Young LLC

25 August 2021

Details of the entity

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

Details of the auditor

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

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of June 30, 2021
(All amounts are in millions of Russian rubles)

	Notes	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Continuing operations			
Revenue from contracts with customers	16	184,910	131,773
Cost of sales		(103,805)	(84,870)
Gross profit	16	81,105	46,903
Selling and distribution expenses		(27,028)	(24,297)
Impairment of goodwill and other non-current assets, net	10	(517)	(3,498)
Allowance for expected credit losses on financial assets	7	(1,161)	(849)
Taxes other than income taxes		(2,107)	(2,432)
Administrative and other operating expenses		(8,660)	(10,483)
Other operating income	15	1,721	326
Total selling, distribution and operating income and (expenses), net		(37,752)	(41,233)
Operating profit		43,353	5,670
Finance income	14	346	529
Finance costs	14	(10,954)	(14,265)
Foreign exchange gain (loss), net		6,320	(18,939)
Share of profit of associates, net		(1)	6
Other income		119	255
Other expenses		(219)	(95)
Total other income and (expense), net		(4,389)	(32,509)
Profit (loss) before tax from continuing operations		38,964	(26,839)
Income tax expense	11	(6,044)	(4,333)
Profit (loss) for the period from continuing operations		32,920	(31,172)
Discontinued operations			
Profit after tax for the period from discontinued operations		—	41,609
Profit for the period		32,920	10,437
Other comprehensive income			
<i>Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods, net of tax:</i>		(610)	1,442
Exchange differences on translation of foreign operations		(610)	1,442
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods, net of tax:</i>		218	(127)
Net (loss) gain on equity instruments designated at fair value through other comprehensive income		(16)	—
Re-measurement of defined benefit plans		234	(127)
Other comprehensive (loss) income for the period, net of tax		(392)	1,315
Total comprehensive income for the period, net of tax		32,528	11,752
Profit attributable to:			
Equity shareholders of Mechel PAO		31,805	10,196
Non-controlling interests		1,115	241
Total comprehensive income attributable to:			
Equity shareholders of Mechel PAO		31,406	11,514
Non-controlling interests		1,122	238
Earnings per share			
Weighted average number of common shares		404,776,126	415,251,749
Earnings per share (Russian rubles per share) attributable to common equity shareholders – basic and diluted		78.57	24.55
Earnings (loss) per share from continuing operations (Russian rubles per share) – basic and diluted		78.57	(75.65)
Earnings per share from discontinued operations (Russian rubles per share) – basic and diluted		—	100.20

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

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of June 30, 2021
(All amounts are in millions of Russian rubles)

	Notes	June 30, 2021 (unaudited)	December 31, 2020
Assets			
Non-current assets			
Property, plant and equipment.....	9	78,676	81,345
Right-of-use assets.....	9	12,176	12,840
Mineral licenses.....		18,068	18,458
Goodwill and other intangible assets.....		10,354	10,383
Other non-current assets.....		581	611
Investments in associates.....		340	341
Non-current financial assets.....		421	445
Deferred tax assets.....		460	561
Total non-current assets.....		121,076	124,984
Current assets			
Inventories.....		49,397	42,138
Income tax receivables.....		43	45
Other current assets.....		10,114	8,423
Trade and other receivables.....		23,343	16,403
Other current financial assets.....		113	141
Cash and cash equivalents.....	6	5,124	1,706
Total current assets.....		88,134	68,856
Total assets.....		209,210	193,840
Equity and liabilities			
Equity			
Common shares.....		4,163	4,163
Preferred shares.....		840	840
Treasury shares.....		(907)	(907)
Additional paid-in capital.....		23,410	23,410
Accumulated other comprehensive income.....		992	1,391
Accumulated deficit.....		(241,479)	(273,186)
Equity attributable to equity shareholders of Mechel PAO.....		(212,981)	(244,289)
Non-controlling interests.....		14,740	13,618
Total equity.....		(198,241)	(230,671)
Non-current liabilities			
Loans and borrowings.....	8.1	1,372	2,201
Lease liabilities.....	8.2	4,177	3,958
Other non-current financial liabilities.....		1,759	1,901
Other non-current liabilities.....		307	301
Pension obligations.....		4,976	5,232
Provisions.....	12	4,615	4,802
Deferred tax liabilities.....		7,122	6,773
Total non-current liabilities.....		24,328	25,168
Current liabilities			
Loans and borrowings.....	8.1	299,549	314,836
Lease liabilities.....	8.2	6,811	7,535
Trade and other payables.....		45,369	43,783
Other current financial liabilities.....		524	324
Income tax payable.....		10,153	7,843
Taxes and similar charges payable other than income tax.....		8,623	10,969
Advances received.....		6,093	6,067
Other current liabilities.....		228	1,038
Pension obligations.....		624	631
Provisions.....	12	5,149	6,317
Total current liabilities.....		383,123	399,343
Total liabilities.....		407,451	424,511
Total equity and liabilities.....		209,210	193,840

Chief Executive Officer of Mechel PAO

Oleg V. Korzhov

August 25, 2021

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



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

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

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the six months ended June 30, 2021

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

Notes	Attributable to equity shareholders of the parent									
	Common shares		Preferred shares		Treasury shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to shareholders of Mechel PAO
	Quantity	Amount	Quantity	Amount	Quantity	Amount				
As of January 1, 2021	416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,410	1,391	(273,186)	(244,289)
Profit for the period	-	-	-	-	-	-	-	-	31,805	31,805
<i>Other comprehensive income (loss)</i>										
Re-measurement of equity instruments designated at fair value through OCI	-	-	-	-	-	-	-	(16)	-	(16)
Re-measurement gains on defined benefit plans	-	-	-	-	-	-	-	227	-	227
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(610)	-	(610)
Total comprehensive income for the period	-	-	-	-	-	-	-	(399)	31,805	31,406
Dividends declared to equity shareholders of Mechel PAO	-	-	-	-	-	-	-	-	(98)	(98)
As of June 30, 2021 (unaudited)	416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,410	992	(241,479)	(212,981)
										14,740
										(198,241)

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

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2021

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

	Notes	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Cash flows from operating activities			
Profit (loss) for the period from continuing operations.....		32,920	(31,172)
Profit after tax for the period from discontinued operations		—	41,609
Profit for the period		32,920	10,437
<i>Adjustments to reconcile profit to net cash provided by operating activities</i>			
Depreciation and amortisation.....		7,168	7,475
Foreign exchange (gain) loss, net.....		(6,320)	20,316
Deferred income tax expense		453	3,146
Allowance for expected credit losses, net.....		1,161	849
Gain on restructuring and forgiveness of trade and other payables and write-off of trade and other payables with expired legal term		(1,189)	(47)
Write-off of inventories to net realisable value.....		377	1,870
Impairment of goodwill and other non-current assets, net and loss on write-off of non-current assets		844	3,659
Finance income		(346)	(529)
Finance costs	14	10,954	15,973
Provisions for legal claims, income tax and other taxes and other provisions		1,140	2,541
Gain on sale of discontinued operations.....		—	(45,580)
Other		110	243
<i>Changes in working capital items</i>			
Trade and other receivables.....		(8,413)	(2,061)
Inventories.....		(9,772)	(3,503)
Trade and other payables.....		1,773	1,745
Advances received.....		61	760
Taxes payable and other liabilities.....		2,897	7,433
Other assets.....		(2,108)	(210)
Income tax paid		(3,114)	(285)
Net cash provided by operating activities.....		28,596	24,232
Cash flows from investing activities			
Interest received		110	21
Proceeds from loans issued and other investments.....		2	39
Proceeds from disposal of the discontinued operations, net of cash disposed of		—	88,979
Proceeds from disposals of property, plant and equipment.....		114	6
Purchases of property, plant and equipment.....		(2,888)	(3,119)
Net cash (used in) provided by investing activities.....		(2,662)	85,926
Cash flows from financing activities			
Proceeds from loans and borrowings, including proceeds from factoring arrangement of RUB 900 million and RUB 17 million for the six months ended June 30, 2021 and 2020, respectively.....		20,986	12,929
Repayment of loans and borrowings, including payments from factoring arrangement of RUB 1 million and RUB 180 million for the six months ended June 30, 2021 and 2020, respectively.....		(29,361)	(108,247)
Sale of non-controlling interest in subsidiaries.....		144	—
Dividends paid to non-controlling interests.....		—	(3)
Interest paid, including fines and penalties.....		(9,539)	(14,473)
Payment of principal portion of lease liabilities		(1,792)	(818)
Sale and leaseback transactions.....		72	548
Acquisition of assets under deferred payment terms		(95)	(327)
Net cash used in financing activities.....		(19,585)	(110,391)
Foreign exchange gain (loss) on cash and cash equivalents, net.....		(280)	(575)
Changes in allowance for expected credit losses on cash and cash equivalents.....		(7)	(30)
Net increase (decrease) in cash and cash equivalents		6,062	(838)
Cash and cash equivalents at beginning of period	6	1,706	3,509
Cash and cash equivalents, net of overdrafts at beginning of period		(938)	2,867
Cash and cash equivalents at end of period	6	5,124	4,272
Cash and cash equivalents, net of overdrafts at end of period.....		5,124	2,029

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2021

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

1. Corporate information

Information

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

Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity (generation and distribution) and heat power generation), and conducts operations in Russia, the CIS countries, Europe and Asia Pacific. The Group sells its products within Russia and foreign markets. As of June 30, 2021, there were no changes in the composition of the Group. The Group operates in highly competitive industries; any local or global downturn in the industry may have an adverse effect on the Group's results of operations and financial condition. While the Group has intention to continue to rely on operating cash flow, it expects to attract long-term loans and borrowings to finance major investment projects, focus on refinancing and restructuring of the loan portfolio and other financing sources for its capital needs. As discussed in Note 4, management believes that the Group will secure adequate financing.

Authorisation for issuance

These interim condensed consolidated financial statements as of June 30, 2021 and for the six months then ended were authorised for issuance on August 25, 2021.

Seasonality

The Group's business is not significantly affected by seasonality. Therefore, the additional disclosure of financial information for the 12-month period ended on the interim reporting date, encouraged by IAS 34 *Interim Financial Reporting* ("IAS 34"), is not presented.

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

These interim condensed consolidated financial statements of the Group for the six months ended June 30, 2021 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as of December 31, 2020.

The interim condensed consolidated financial statements of the Group comply with the Russian Federal Law No. 208 *On Consolidated Financial Statements* (Law "208-FZ"), which was adopted on July 27, 2010. The Law 208-FZ provides the legal basis for certain entities to prepare the financial statements in accordance with IFRS as issued by the IASB and subsequently endorsed for use in the Russian Federation. As of June 30, 2021, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia. The interim condensed consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

Reclassifications and rounding

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

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

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2021

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

3. Changes to the Group's accounting policies

Significant accounting estimates, assumptions and judgments

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the interim condensed consolidated financial statements, and the amounts of revenues and expenses recognised during the reporting period. Estimates and assumptions are continually evaluated and are based on the Group's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Other than as described below, in preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2020.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2020, except for the adoption of the new standards, interpretations and amendments. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The following amended standards became effective from January 1, 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform – Phase 2* (issued on August 27, 2020 and effective for annual reporting periods beginning on or after January 1, 2021).

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as the U.S. dollar-denominated loans and borrowings are matured in April 2022. The Group intends to use the practical expedients in future periods if they become applicable.

4. Going concern

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

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2021

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

As of June 30, 2021, the Group was not in compliance with the payment schedules under certain credit facilities of foreign banks and lenders and a number of financial and non-financial covenants contained in the Group's loan agreements as further described in Note 8.1. These breaches constitute an event of default and, as a result, the lenders may request accelerated repayment of a substantial portion of the Group's debt including repayment requests on overdue principal and interest from foreign banks. As of June 30, 2021, the Group's debt payable on demand was RUB 295,908 million, including RUB 225,331 million of long-term debt classified as short-term debt due to contractual cross-default provisions and breaches of financial and non-financial covenants. As of the date of approval of these interim condensed consolidated financial statements, the Group did not have sufficient own resources to enable it to comply with such repayment requests. No requests demanding early repayment of debt due to violation of restrictive covenants from creditors were received by the Group as of the date of approval of these interim condensed consolidated financial statements. Since restructuring in 2020, the Group has been in compliance with the agreed payment schedules with VTB and Gazprombank. However, the debt restructuring was not finalised with respect to the portion of the Group's credit portfolio with foreign banks and lenders, therefore, the Group continues to negotiate with the creditors about debt settlement options and expects to agree on settlement terms in the second half of 2021. As of June 30, 2021, the Group's total liabilities exceeded total assets by RUB 198,241 million.

Management has concluded that the impact of COVID-19 pandemic, steel and mining market volatility and related risks and uncertainties and the other circumstances mentioned above indicate the existence of a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. In the first half of 2021, prices for construction steel products of the Group's steel segment increased significantly, the prices for coal products are also showing positive dynamics. These signs of world markets recovery allow the Group to focus on planned enhancement of crude steel production, increase in sales of the major steel products, diversification of product range to quickly respond to market changes, and further development of the Group's mining assets providing additional volumes of high-grade coking coal both to the Russian consumers and to exports markets.

5. Fair value measurement

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

		June 30, 2021 (unaudited)		December 31, 2020	
	Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost					
Floating rate loans and borrowings.....	2	295,036	294,704	308,657	284,427
Bonds.....	1	89	90	2,473	2,496
Fixed rate loans and borrowings.....	2	5,796	5,696	5,907	5,734
Other non-current financial liabilities	2	1,759	1,793	1,901	1,919
Total.....		302,680	302,283	318,938	294,576

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

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

As of June 30, 2021 and December 31, 2020, trade receivables of RUB 694 million and RUB 1.115 million arising from provisionally priced contracts were measured at fair value through profit or loss upon recognition (Level 2). The adjustments to the final price on provisionally priced contracts measured at fair value recorded within revenue resulted in a net gain of RUB 70 million and net loss of RUB 163 million for the six months ended June 30, 2021 and 2020, respectively.

6. Cash and cash equivalents

The outstanding cash balance in Coalmetbank, an entity under control of the Group's Controlling shareholders, was RUB 3,788 million and RUB 382 million as of June 30, 2021 and December 31, 2020, respectively.

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2021
(All amounts are in millions of Russian rubles, unless stated otherwise)

7. Trade and other receivables

The charge of the allowance for expected credit losses on trade and other receivables amounted to RUB 1,156 million and RUB 800 million for the six months ended June 30, 2021 and 2020, respectively. The amounts of the allowance for expected credit losses on trade and other receivables utilized were RUB 120 million and RUB 137 million for the six months ended June 30, 2021 and 2020, respectively.

8. Financial liabilities

8.1 Loans and borrowings

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

	June 30, 2021 (unaudited)		December 31, 2020	
	Interest rate, %	Amount of outstanding debt	Interest rate, %	Amount of outstanding debt
Short-term borrowings and current portion of long-term debt				
In Russian rubles				
Banks and financial institutions.....	8.0	12	5.8	2,644
Weighted average interest rate for the period	8.0		5.8	
In euro				
Banks and financial institutions.....	1.7-1.8	1,029	1.7-1.8	171
Weighted average interest rate for the period	1.8		1.8	
Current portion of long-term debt.....	—	285,301	—	298,794
Interest payable.....	—	9,383	—	9,750
Fines and penalties on overdue amounts	—	3,824	—	3,477
Total short-term borrowings and current portion of long-term debt.....		299,549		314,836

	June 30, 2021 (unaudited)		December 31, 2020	
	Interest rate, %	Amount of outstanding debt	Interest rate, %	Amount of outstanding debt
Long-term debt				
In Russian rubles				
Banks and financial institutions.....	1-7.5	157,351	1.0-6.9	158,969
Bonds issue.....	8.0	88	7.9-8.8	2,432
Corporate lenders	9.3	48	9.3	47
Weighted average interest rate for the period	7.0		5.8	
In U.S. dollars				
Banks and financial institutions.....	5.7-7.0	25,198	7.1-7.2	29,576
Weighted average interest rate for the period	6.3		7.2	
In euro				
Banks and financial institutions.....	0.3-5.7	103,988	0.3-5.7	109,971
Weighted average interest rate for the period	4.7		4.7	
Current part of long-term debt.....		(285,301)		(298,794)
Total long-term debt.....		1,372		2,201

Aggregate scheduled maturities of the debt outstanding as of June 30, 2021 were as follows:

Payable by	
On demand	295,908
Within the next 12 months (current portion)	3,641
Between 1 and 2 years.....	1,281
Between 2 and 3 years.....	12
Between 3 and 4 years.....	16
Between 4 and 5 years.....	63
Total.....	300,921

MECHEL PAO
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the six months ended June 30, 2021

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

(a) Credit facilities

To refinance the U.S. dollar-denominated facilities of SKCC, in April 2020, a new U.S. dollar-denominated credit line was agreed with VTB. On February 3, 2021, upon meeting conditions precedent, the Group received \$250 million (RUB 18,948 million as of February 3, 2021) and used all these funds to repay the U.S. dollar-denominated VTB credit facilities of SKCC.

The finance income in the amount of RUB 223 million was recognised in the consolidated statement of profit and other comprehensive income for the period ended June 30, 2021 as a result of this refinancing.

(b) Covenants

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

The Group was required to comply with the following ratios under the most significant loan agreements with the Russian state-controlled banks as of June 30, 2021:

Restrictive covenants	Requirement	Actual as of June 30, 2021 (unaudited)
Group's Adjusted EBITDA to Net Interest Expense	Shall not be less than 2.0:1.0	3.43:1.0
Group's Adjusted EBITDA to Consolidated Financial Expense	Shall not be less than 2.0:1.0	3.30:1.0
Group's Net Debt to Adjusted EBITDA	Shall not exceed 6.0:1.0	4.28:1.0
Group's Total Debt to Adjusted EBITDA	Shall not exceed 6.0:1.0	4.43:1.0
Group's Cash flow from operating activities to Adjusted EBITDA	Shall not be less than 0.80:1.0	0.60:1.0
Group's Adjusted EBITDA to Revenue	Shall not be less than 0.15:1.0	0.22:1.0

As of June 30, 2021, the Group was not in compliance with one financial and several non-financial covenants set by the loan agreements with the Russian state-controlled banks. Also, the Group was not in compliance with covenants contained in the loan agreements with foreign banks.

There was a default on payments of principal and interest in the amount of RUB 30,596 million and RUB 2,042 million as of June 30, 2021 and in the amount of RUB 30,835 million and RUB 2,000 million as of December 31, 2020, respectively, which is represented by ECA-covered loans (represented by the credit facilities of BNP Paribas and other international lenders). The Group regularly receives notifications on defaults under the facility agreements with ECA-lenders, as well as reservation of rights letters and calls of guarantees. The long-term debt of RUB 225,331 million was reclassified to short-term liabilities as of June 30, 2021 as a result of non-compliance with covenants and a default on payments of principal and interest.

8.2 Lease liabilities

In the first half of 2021, the Group has agreed with one of the lessors to extend the lease of railway carriages until March 2022 resulting in additions to right-of-use assets and lease liabilities in the amount of RUB 522 million. Additionally, the Group reassessed the lease liabilities related to agreements for land plots at Southern Ural Nickel Plant (SUNP) due to changes in future lease payments based on the revised cadastral value of land plots. This resulted in the increase in lease liabilities of RUB 517 million.

The Group's lease contracts contain a number of restrictions, which include but are not limited to cross-default provisions. As of June 30, 2021 and December 31, 2020, the Group was not in compliance with certain covenants under a number of loan agreements and certain lease contracts. As a result, the related long-term lease liabilities of RUB 3,837 million and RUB 4,345 million were reclassified to short-term lease liabilities due to covenant violations as of June 30, 2021 and December 31, 2020, respectively.

The Group has lease contracts that have not yet commenced as of June 30, 2021 with the future lease payments excluding VAT of RUB 433 million within one year, RUB 1,828 million within five years and RUB 90 million thereafter.

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

The Group acquired property, plant and equipment in the amount of RUB 2,389 million and RUB 3,862 million for the six months ended June 30, 2021 and 2020, respectively, including property under construction of RUB 1,472 million and RUB 2,934 million for the six months ended June 30, 2021 and 2020, respectively. Construction-in-progress put into operation amounted to RUB 1,601 million and RUB 6,949 million, for the six months ended June 30, 2021 and 2020, respectively.

The additions to right-of-use assets were RUB 601 million during the six months ended June 30, 2021 (for the six months ended June 30, 2020: RUB 378 million). The carrying amount of the right-of-use assets was increased by RUB 1,193 million and decreased by RUB 1,311 million due to remeasurement of the lease liabilities as a result of the lease contracts' modifications and reassessments during the six months ended June 30, 2021 and 2020, respectively.

Depreciation charge of property, plant and equipment and right-of-use assets related to continuing operations included in the interim condensed consolidated statement of profit and other comprehensive income amounted to RUB 4,847 million and RUB 1,724 million for the six months ended June 30, 2021, respectively (for the six months ended June 30, 2020: RUB 4,588 million and RUB 1,824 million, respectively).

Assets under construction

As of June 30, 2021 and December 31, 2020, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amount of RUB 224 million and RUB 299 million, respectively.

Contractual commitments

As of June 30, 2021 and December 31, 2020, the Group's contractual commitments to acquire property, plant and equipment, net of VAT amounted to RUB 12,673 million and RUB 9,300 million, respectively.

10. Impairment of goodwill and other non-current assets

As of June 30, 2021, the Group performed an impairment analysis of goodwill and other non-current assets at the level of cash generating units (CGU) and identified indicators of impairment for one of the CGUs – Yakutugol. Therefore, the Group performed an impairment test for Yakutugol as of June 30, 2021. The recoverable amount of Yakutugol was determined based on value in use. Inflation and discount rates, range of discount rates, estimated for each year for the forecasted period, were as follows:

As of June 30, 2021 (unaudited)	2021	2022	2023	2024	2025
Inflation rate in Russia.....	5.3%	4.2%	3.5%	3.8%	3.9%
Pre-tax discount rate, %.....	15.87%	15.87%	15.87%	15.87%	15.87%

The Group bases its impairment calculation on detailed budgets and forecast calculations.

The Group used the following key assumptions on prices for products sold in assessing the recoverable amount of the tested cash generating unit:

Cash generating units (unaudited)	Segment	Product, measurement unit	Range of sales prices, FCA
Yakutugol.....	Mining	Coking coal (Rub. thousand/tn)	4.1-5.1
Yakutugol.....	Mining	Steam coal (Rub. thousand/tn)	2.3-2.8

All other assumptions remained consistent with those disclosed in the annual financial statements for the year ended December 31, 2020.

As a result of testing performed as of June 30, 2021, no impairment loss of Yakutugol was identified.

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Impairment of non-current assets

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of June 30, 2021:

Cash generating units	Impairment loss on non-current assets identified as a result of impairment tests at June 30, 2021 (unaudited)
SUNP.....	517
Total.....	517

As of June 30, 2021, the Group remeasured its lease liabilities related to agreements for land plots at SUNP resulting in recognition of respective right-of-use assets and lease liabilities in the amount of RUB 517 million. The right-of-use assets were impaired to nil as the entity's future cash flows are negative due to the absence of production activity.

Sensitivity analysis

Reasonably possible change in key assumptions used in calculations of value in use could impact recoverable amount which was most sensitive to the growth of discount rate, cash flows growth rates after the forecasted period and change in operating profit due to changes in sales and extraction volumes and selling prices.

Based on the sensitivity analysis carried out for Yakutgol as of June 30, 2021, a 5% decrease in future planned revenues would trigger the impairment of goodwill of RUB 2,682 million.

The calculated value in use of Yakutgol is sensitive to annual production volumes. If annual production volumes are decreased by 20%, the value in use of Yakutgol would trigger the impairment of goodwill of RUB 4,014 million.

The recoverable amount of Yakutgol would become equal to its carrying amount if the assumptions used to measure the recoverable amount are changed by the following percentages: decrease in sales prices of 3.0% and increase in discount rate of 2.1% at Yakutgol. The recoverable amount of Yakutgol based on initial key assumptions exceed the carrying amount by RUB 4,217 million.

11. Income tax

The major components of income tax expense for the six months ended June 30, 2021 and 2020 are:

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Recognised in profit or loss from continuing operations		
Current income tax		
Current income tax charge.....	5,427	970
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position	164	217
Deferred tax		
Relating to origination and reversal of temporary differences.....	453	3,146
Income tax expense reported in the interim condensed consolidated statement of profit and other comprehensive income.....	6,044	4,333

Current income tax charge is calculated on taxable profits of the Group's subsidiaries and the change relates to the overall increase in the performance results of the Group for the six months ended June 30, 2021. Deferred tax expense is mainly attributable to reassessment of deferred tax assets arising from the carryforward of unused tax losses of the consolidated group of taxpayers, including due to changes in tax legislation, and also origination and reversal of temporary differences attributable to different timing of foreign exchange gains/losses recognition on certain intragroup loans and also temporary differences of inventories and property, plant and equipment.

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Probable income tax risks of RUB 6,590 million and RUB 6,575 million as of June 30, 2021 and December 31, 2020, respectively, have been recorded in the Group's interim condensed consolidated financial statements. Possible income tax risks of RUB 1,094 million and RUB 862 million as of June 30, 2021 and December 31, 2020, respectively, have not been recognised in the Group's interim condensed consolidated financial statements. Indemnity in the amount of RUB 1.9 billion was included in the purchase and sale agreement related to the Elga coal complex to address different interpretations of the tax law and regulations existed before the disposal date assessed by the management as possible for the income tax and other taxes risk.

12. Provisions

Provisions for legal claims

During the six months ended June 30, 2021, a provision for the disputes over purchases in the amount of RUB 1,434 million was utilized, as in March 2021, the Group lost a legal case related to these litigations.

Legal claim contingency

As of June 30, 2021, management assesses the outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 1,859 million as possible based on the management's analysis and discussions with the legal advisers.

As of June 30, 2021, the Group as a defendant is involved in the court proceeding regarding the third party metallurgical plant's bankruptcy case. It is not practicable to estimate the potential effect of this claim and the timing of the payment, if any. The Group has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed for the Group.

Provisions on taxes other than income tax

Management believes that the Group has paid or accrued all applicable taxes. The Group recorded RUB 1,181 million and RUB 956 million of other tax claims including fines and penalties that management believes are probable as of June 30, 2021 and December 31, 2020, respectively. The Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying interim condensed consolidated financial statements in order for those statements not to be materially misstated or misleading as of June 30, 2021.

Possible tax liabilities on other tax claims including fines and penalties, which were identified by management as those that can be subject to different interpretations of the tax law and regulations, are not accrued in the interim condensed consolidated financial statements. The amount of such liabilities was RUB 447 million and RUB 468 million as of June 30, 2021 and December 31, 2020, respectively.

13. Issued capital and reserves

On June 25, 2021, Mechel declared dividends of RUB 98.2 million (RUB 1.17 per preferred share) to the third party holders of preferred shares for 2020. On June 30, 2020, Mechel declared dividends of RUB 292.2 million (RUB 3.48 per preferred share) to the third party holders of preferred shares for 2019. As of the date of approval of these interim condensed consolidated financial statements, the dividends declared for 2020 and 2019 have been were paid in full.

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14. Finance income and finance costs

Finance income is comprised of the following:

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Effect of restructuring of loans and leases	244	337
Interest income on other financial assets	83	113
Income from the discounting of financial instruments	19	3
Remeasurement of fair value of financial instruments	—	76
Total.....	346	529

Finance costs are comprised of the following:

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Interest on loans and borrowings	9,393	12,629
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	467	602
Interest expense on lease liabilities	418	567
Fines and penalties on overdue leases and trade payables	243	97
Total finance costs related to loans, borrowings and leases	10,521	13,895
Unwinding of discount on rehabilitation provision	164	146
Interest expenses under pension liabilities	138	137
Expenses related to discounting of financial instruments	131	87
Total.....	10,954	14,265

15. Other operating income

In the six months ended June 30, 2021, the Group has released its obligation mainly related to Donetsk Electrometallurgical Plant (DEMP) for the steel products with expired legal term in the amount of RUB 1.063 million (nil in the six months ended June 30, 2020) and recognized gain within other operating income.

16. Segment information

The following tables present segment information for the Group's operating segments for the six months ended June 30, 2021 and 2020, respectively:

Six months ended June 30, 2021 (unaudited)	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers	45,560	124,520	14,830	—	184,910
Inter-segment revenue	23,618	2,923	8,139	(34,680)	—
Gross profit	41,190	33,546	7,448	(1,079)	81,105
Depreciation and amortisation	(3,538)	(3,396)	(234)	—	(7,168)
Operating profit	24,458	20,230	(9)	(1,326)	43,353
Finance income	301	45	—	—	346
Inter-segment finance income	1,131	243	19	(1,393)	—
Finance costs	(4,248)	(6,553)	(153)	—	(10,954)
Inter-segment finance costs	(212)	(1,097)	(84)	1,393	—
Income tax (expense) benefit	(1,622)	(2,073)	16	(2,365)	(6,044)
Profit (loss) for the period	20,413	16,359	(161)	(3,691)	32,920

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Six months ended June 30, 2020 (unaudited)	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers	35,280	82,400	14,093	—	131,773
Inter-segment revenue	16,695	3,452	8,009	(28,156)	—
Gross profit	25,044	14,623	6,948	288	46,903
Depreciation and amortisation	(3,437)	(3,267)	(239)	—	(6,943)
Operating profit (loss)	4,366	2,605	(1,238)	(63)	5,670
Finance income	433	93	3	—	529
Inter-segment finance income	511	142	12	(665)	—
Finance costs	(7,561)	(6,554)	(150)	—	(14,265)
Inter-segment finance costs	(84)	(477)	(104)	665	—
Income tax (expense) benefit	(1,606)	(144)	254	(2,837)	(4,333)
Profit after tax for the period from discontinued operations	41,651	—	—	(42)	41,609
Profit (loss) for the period	32,535	(17,918)	(1,238)	(2,942)	10,437

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

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Domestic		
Russia	97,430	80,381
Other	23,315	13,184
Total	120,745	93,565
Export	64,165	38,208
Total revenue	184,910	131,773

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

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Russia	97,510	80,425
Asia	30,081	21,308
Europe	26,360	17,072
CIS	23,155	10,722
Middle East	7,510	2,052
Other regions	294	194
Total	184,910	131,773

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

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Mining segment		
Coal and middlings	29,973	28,439
Coke and chemical products	14,468	6,064
Iron ore concentrate	245	165
Other	874	612
Total	45,560	35,280
Steel segment		
Long steel products	72,116	48,759
Hardware	17,809	12,219
Flat steel products	17,380	11,541
Forgings and stampings	5,337	4,980
Semi-finished steel products	5,147	73
Ferrosilicon	2,543	1,467
Steel pipes	2,371	1,646
Other	1,817	1,715
Total	124,520	82,400
Power segment		
Electricity	13,917	13,303
Other	913	790
Total	14,830	14,093
Total revenue	184,910	131,773

17. Events after the reporting period

The Group evaluated subsequent events from June 30, 2021 through the date the interim condensed consolidated financial statements were authorised for issuance and concluded that no subsequent events have occurred that would require recognition or disclosure in the interim condensed consolidated financial statements other than discussed below.

During July through August 25, 2021, the Group entered into new operating machinery and transportation vehicles lease agreements for the period of 5 years, with the future lease payments excluding VAT of RUB 58 million within one year, RUB 557 million thereafter.