

- Adjusted EBITDA does not reflect the impact of finance income and finance costs including fines and penalties on overdue loans and borrowings and lease payments, which are significant and could further increase if we incur more debt, on our operating performance.
- Adjusted EBITDA does not reflect the impact of the net result on the disposal of non-current assets on our operating performance, which may recur.
- Adjusted EBITDA does not reflect the impact of impairment of goodwill and other non-current assets, net, which may recur.
- Adjusted EBITDA does not reflect the impact of write-off of trade and other receivables, which may recur.
- Adjusted EBITDA does not reflect the impact of allowance for expected credit losses on financial assets, provision (reversal of provision) for doubtful accounts, which may recur.
- Adjusted EBITDA does not reflect the impact of write-off of inventories to net realizable value, which may recur.
- Adjusted EBITDA does not reflect the impact of profits and losses after tax for the period from discontinued operations.
- Adjusted EBITDA does not reflect the impact of net result on the disposal of subsidiaries.
- Adjusted EBITDA does not reflect the impact of profits and losses attributable to non-controlling interests on our operating performance.
- Adjusted EBITDA does not reflect the impact of income tax expenses and benefits on our operating performance.
- Adjusted EBITDA does not reflect the impact of effect of pension obligations.
- Adjusted EBITDA does not reflect the impact of other fines and penalties.
- Adjusted EBITDA does not reflect the impact of gain on restructuring and forgiveness of trade and other payables and write-off of trade and other payables with expired legal term.
- Adjusted EBITDA does not reflect the impact of other one-off items.
- Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally. See our consolidated statement of financial position, consolidated statement of profit (loss) and other comprehensive income and consolidated statement of cash flows included elsewhere in this document.

Risk Factors

An investment in our shares and ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this document, before you decide to buy our shares or ADSs. We have described only the risks that we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not presently aware. If any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be materially adversely affected. In that case, the value of our shares or ADSs could also decline and you could lose all or part of your investment.

Risks Relating to Our Financial Condition and Financial Reporting

There is substantial doubt about our ability to continue as a going concern.

Because we have a substantial amount of outstanding indebtedness that we do not have the ability to repay without refinancing or restructuring, and our ability to do so is dependent upon continued negotiations with our creditors, there is substantial doubt about our ability to continue as a going concern. See note 4 to our consolidated financial statements in "Item 18. Financial Statements." We also note that we have defaulted on payments of principal and interest under the group's non-restructured export credit facility agreements with international lenders ("ECA-lenders") and have been and continue to be in non-compliance with a number of financial and non-financial covenants contained in our loan agreements. See "— We have experienced and may continue to experience liquidity shortages and a working capital deficit," "— Our creditors had accelerated and in the future may accelerate amounts due under our loan agreements due to our failure to comply with our payment and other obligations," "— We may be unable to restructure all of our indebtedness or we may fail to comply with the terms of the restructured indebtedness" and "— We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged." These breaches constitute an event of default and cross-default under various loan agreements and, as a result, the creditors may request accelerated repayments and initiate legal procedures for enforcement of our debts. We do not have the resources to repay such overdue debt or to enable us to comply with accelerated repayment requests immediately or to make payments in full in 2020 with regard to the schedules agreed on loans restructured earlier. Currently we are negotiating new debt restructuring terms with our creditors, however it is unclear when and if any binding documents relating to restructuring will be executed. In January-February 2020, we have requested and received consents from Gazprombank and VTB Bank waiving the accelerated repayment of debt principal until April 1, 2020 and March 31, 2020, respectively, that are conditional on timely payment of interest and commissions under respective loan agreements.

Our plans, including the achievement of the restructuring with all of our lenders and aligning the servicing of our debt with projected cash flows to be generated by our group in 2020 and beyond, are discussed in "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Outlook for 2020" and note 4 to our consolidated financial statements in "Item 18. Financial Statements." Our future is dependent on our ability to refinance or restructure our indebtedness successfully or otherwise address these matters. If we fail to do so for any reason, we would not be able to continue as a going concern and could be forced to seek relief under applicable bankruptcy or insolvency procedures, in which case our shares and ADSs would lose all or a substantial amount of their value. However, given management's plans, our consolidated financial statements have been prepared on the basis that we will continue as a going concern entity, and no adjustments have been made in our consolidated financial statements relating to the recoverability and classification of the recorded value of assets, the amounts and classification of liabilities or any other adjustments that might result in any potential impact of us not being able to refinance our debt obligations as outlined in note 4 to our consolidated financial statements in "Item 18. Financial Statements."

We have experienced and may continue to experience liquidity shortages and a working capital deficit.

We have experienced and may continue to experience liquidity shortages from, *inter alia*, our substantial investment program, commodity price decreases, currency fluctuations and other economic and financial difficulties, particularly since the global economic crisis beginning in the late 2000s. In the first half of 2014, as a result of our deteriorating liquidity position and difficulties with refinancing of our debt, we failed to fulfill our payment obligations in connection with the servicing of interest and the repayment of our indebtedness. Since 2015, we have restructured and refinanced a significant amount of indebtedness, including loans from Russian state banks, pre-export credit facilities and bonds issuances. See "— We may be unable to restructure all of our indebtedness or we may fail to comply with the terms of the restructured indebtedness."

Our working capital deficit amounted to RUB 393,407 million as of December 31, 2019 as compared to RUB 404,055 million as of December 31, 2018. Cash and cash equivalents as of December 31, 2019 were

RUB 3,509 million as compared to RUB 1,803 million as of December 31, 2018 and our total liabilities exceeded total assets by RUB 233,597 million as of December 31, 2019. For additional details about our capital requirements and resources, see “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodity prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors (including the imposition of further international sanctions against Russian companies or individuals, as well as certain industries, including steel and mining sectors), many of which are beyond our control, may adversely and materially affect our cash flow, liquidity and working capital position and may result in an increase in our working capital deficit and in our inability to meet our obligations as they fall due.

We have restructured most of our debt portfolio and optimized the capital investment program to reduce the risk of facing a liquidity shortage, as well as to allow us to reduce our debt leverage over time. In the second half of 2019, we have entered into negotiations with our major Russian lenders to agree on the new debt restructuring terms in order to extend maturities and to reduce our annual principal payments. These negotiations were initiated by us for the purposes of ensuring new restructuring of our debt portfolio. See “– Our creditors had accelerated and in the future may accelerate amounts due under our loan agreements due to our failure to comply with our payment and other obligations” and “– We will require a significant amount of cash to fund our capital investment program.”

However, there is no guarantee that we would be successful in refinancing and restructuring our debt or in raising additional capital (particularly if we or any of our subsidiaries, directors or officers, or significant counterparties are subject to international sanctions which could, among other things, prevent or restrict us from accessing foreign capital markets and/or supplying our products on certain export markets), or that we would be able to do so on a timely basis or on terms which are acceptable to us. Even if we were successful, the terms of such refinancing or new capital may be detrimental to holders of ADSs and shares including due to a dilution of their interests. Any of these factors could negatively impact our liquidity and working capital and have a material adverse effect on our business, financial condition, results of operations and the trading price of our ADSs and shares. In addition, Mechel has not been rated by a “big three” credit rating agency since Moody’s Investors Service withdrew our corporate family rating at our request in March 2015. The absence of an international rating (or the assignment of a poor rating) may reduce our opportunities to raise necessary debt financing, including by accessing the debt capital markets, on favorable terms or at all.

Poor liquidity and a working capital deficit could lead to debt repayment difficulties, defaults, enforcement of security and eventually insolvency. All these factors could lead to difficulties with refinancing or raising additional capital and would require further restructuring. See “– Risks Relating to Our Business and Industry – We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects” and “– Risks Relating to the Russian Federation – Sanctions imposed by the United States and the European Union, as well as other politically related disagreements and allegations between Russia and other countries, may have a material adverse effect on our business, liquidity and financial condition, as well as the trading market for and value of our shares and ADSs.”

Our creditors had accelerated and in the future may accelerate amounts due under our loan agreements due to our failure to comply with our payment and other obligations.

Most of the loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings, restrictive covenants and events of default. Furthermore, according to the terms of such agreements, certain of our actions aimed at developing our business and pursuing our strategic objectives, such as acquisitions, disposal of assets, corporate restructurings, investments into certain of our subsidiaries and

others, require prior notice to or consent from the respective lenders. We have restrictions on our ability to pay dividends, incur additional indebtedness and make certain capital expenditures, as well as expand through further acquisitions and use proceeds from certain disposals. A breach of our obligations under the loan agreements may give our creditors the right to claim for accelerated payment.

For example, during 2014 and 2015, VTB Bank and Sberbank decided to accelerate outstanding amounts due under our credit facilities due to our payment defaults. Although we managed to settle with VTB Bank and Sberbank, such acceleration, in turn, would give our other creditors the right to trigger acceleration under their loan agreements. In addition, we may be unable to settle any such claims in the future. See “– We may be unable to restructure all of our indebtedness or we may fail to comply with the terms of the restructured indebtedness.”

In February 2017, a number of lenders under pre-export facility agreements filed requests for arbitration with the London Court of International Arbitration (the “LCIA”). In December 2017, we entered into a lock-up agreement with a majority of our international lenders in order to facilitate the pre-export facility restructuring. The terms of the lock-up agreement applied until July 16, 2018. At the end of July 2018, we started the process of refinancing of the pre-export facilities using a loan acquired from VTB Bank. In October 2018, the LCIA terminated the arbitrations due to settlement of the disputes. As of December 31, 2018, we had refinanced 99.99% of the pre-export facilities, and, in January 2019, the pre-export facilities were fully refinanced.

As of December 31, 2019, the overdue debt amounted to 6.6% of our total debt, and we were in breach of a number of financial and non-financial covenants contained in our loan agreements and in default as a result of triggering certain cross-default provisions. Such provisions allow the relevant creditors to claim for accelerated repayment of all outstanding amounts at any time; however, we have not received any acceleration notices from the creditors as of December 31, 2019. As of the date hereof, we did not obtain the required waivers with respect to the breaches of the financial covenants. See “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Restrictive Covenants,” “Item 5. Operating and Financial Review and Prospects – Description of Certain Indebtedness,” “Item 10. Additional Information – Material Contracts” and “Item 13. Defaults, Dividend Arrearages and Delinquencies.”

Currently, we continue to be in default under our export credit facility agreements with international lenders, and are negotiating refinancing and restructuring thereof. The ECA-lenders have not waived their rights in respect of or granted their consent to our breaches. We have received notification on defaults under the facilities with our ECA-lenders, as well as reservations of rights and calls of guarantees from certain lenders, but the ECA-lenders have not yet made claims for accelerated repayment. The refusal of any one lender to grant or extend a waiver or amend the loan documentation even if other lenders may have waived covenant defaults under the respective credit facilities, could result in substantially all of our indebtedness being accelerated. We do not have the resources to repay overdue debt or to enable us to comply with accelerated repayment requests immediately.

Our ability to continue to comply with our financial and other loan covenants in the future and to continue to service and refinance our indebtedness will depend on our results of operations and our ability to generate cash in the future and attract new financing and refinance the existing indebtedness, which will depend on several factors, including lenders’ credit decisions, limitations on the ability of Russian companies to access international capital markets as a result of a tightening of international sanctions against Russian companies and individuals and general economic, financial, competitive, legislative and other factors that are beyond our control. We cannot assure you that any breach of financial and other covenants in our loan agreements, including defects in security, will not result in new demands from our lenders for acceleration of our loan repayment obligations or related litigation, including as a result of cross-defaults. If our indebtedness is accelerated in full or in part, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing, and we could lose our assets, including fixed assets and shares in our subsidiaries, if our lenders foreclose on their liens, which would adversely affect our ability to conduct our business and result in a significant decline in the value of our shares and ADSs.

We may be unable to restructure all of our indebtedness or we may fail to comply with the terms of the restructured indebtedness.

We have a number of facilities with ECA-lenders under which we have been in non-compliance. We are negotiating to restructure the indebtedness under these agreements in order to extend the repayment schedule and final maturity, as well as to decrease interest payments. If we fail to negotiate restructuring of these agreements, lenders thereunder could claim for accelerated repayment, which we may not be able to make. This could lead to cross-defaults under our other agreements and could have a material adverse effect on our business, financial condition, results of operations and prospects.

In 2015, we signed agreements on restructuring of our debt with our major Russian lenders, such as VTB Bank and Gazprombank. We also signed restructuring agreements with Sberbank in February-April 2016 which granted a grace period and extended repayments of our debt, as well as waived all previous defaults. In December 2016, we signed the last set of the agreements with VTB Bank which provide for extension of maturity of our credit lines until April 2022. Signing of these agreements was condition precedent to coming into effect of the similar provisions under agreements with Gazprombank and Sberbank. In April 2017, Gazprombank, VTB Bank and Sberbank confirmed the restructuring terms, including an extension of the repayment grace period until 2020 and the final maturity until 2022. In July 2018, we signed a new loan agreement with VTB Bank to refinance existing pre-export credit facilities with a syndicate of banks. In November 2019, Sberbank assigned our debt and related security to VTB Bank. See "Item 5. Operating and Financial Review and Prospects – Restructuring of financial indebtedness."

Our current debt repayment schedule, which was agreed with our major Russian lenders in the course of previous restructuring, provides for full debt repayment during the period of 2020-2022. We may not have sufficient funds to meet this debt repayment schedule. In the second half of 2019, we have entered into negotiations with our major Russian lenders in order to extend maturities of our outstanding debt and to reduce our annual principal payments. However, we have not agreed the key terms of the restructuring and there is no clarity as to when and if any binding agreements will be entered into in relation thereto.

Our major Russian lenders required that all the loans provided to our subsidiaries be secured with the suretyship or pledge of assets of Mechel PAO or its subsidiaries. See "– We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged." In accordance with the Joint-Stock Companies Law then in effect, such transactions exceeding 2% of the balance sheet value of the company's assets determined under the Russian accounting standards required participation and obtaining of approval from a majority of disinterested shareholders of the company; starting from January 1, 2017, the Joint-Stock Companies Law was amended and the threshold was set at 10%. Such security is an additional guarantee for our lenders which they require for restructuring of our debt. On March 4, 2016, we called the extraordinary general shareholders' meeting to approve a number of interested party transactions but we did not manage to obtain the required quorum to approve such transaction. Although we managed to obtain the required quorum thereafter, we cannot predict whether we could obtain such shareholders' approval in order to secure our loans in the future or we could get a waiver from the banks for the amendment of the security structure.

During 2016, we successfully restructured our ruble bonds, however we might need to negotiate with the bondholders extension of maturities thereof and new amortization schedules in case of liquidity shortages in the future. If we fail to agree with the bondholders on a restructuring and do not have liquidity to finance the buy-back of these bonds, payment default will occur. Payment default under any of ruble bonds may result in cross-default under our other bond issuances and restructured credit facilities. The bondholders also could initiate legal proceedings against us after the restructuring and this could lead to termination of the restructuring.

If we are unable to restructure all of our indebtedness or fail to comply with the terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other

borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects.

We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged.

We have a substantial amount of outstanding indebtedness, primarily consisting of debt we incurred in connection with the financing of our acquisitions of Yakutugol and Oriel Resources in 2007 and 2008, as well as debt we incurred to finance our investment program and working capital needs in late 2008 and 2009. As of December 31, 2019, our consolidated total debt, including lease obligations and the put option of Gazprombank, was RUB 454,078 million, of which RUB 391,670 million was short-term debt (including RUB 373,705 million with loan covenant violations, of which RUB 220,046 million was long-term debt reclassified to short-term debt due to defaults and cross-defaults under our loan agreements). Our finance costs for the year ended December 31, 2019 were RUB 38,830 million, net of the amount capitalized.

Most of our outstanding debt has restrictive financial covenants. See “Item 5. Operating and Financial Review and Prospects – Restrictive Covenants,” “Item 5. Operating and Financial Review and Prospects – Description of Certain Indebtedness” and “Item 10. Additional Information – Material Contracts.” Should we be in payment defaults or breaches of covenants and restrictions under our financial agreements and fail to receive waivers, the security may be enforced, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In order to secure bank financings, we have pledged shares in certain our subsidiaries, including 100% of Yakutugol, 95%+3 shares of Southern Kuzbass Coal Company, 91.66% of shares of Chelyabinsk Metallurgical Plant, 50%+2 shares of common shares of Beloretsk Metallurgical Plant, 80%+2 shares of Korshunov Mining Plant, 87.5%+3 shares of Mechel Mining, 75%+2 shares of Urals Stampings Plant, 25%+1 share of Izhtal, 25%+1 share of Port Posiet, 50.99% of registered capital of Elgaugol, 25% of registered capital of Mecheltrans, 100% of registered capital of Fincom-invest 000, 25% of registered capital of Port Temryuk, 25% of registered capital of Bratsk Ferroalloy Plant, 1.99% of registered capital of MecheltransVostok 000 and 1.99% of registered capital of Elga-road as of December 31, 2019. Also, some of our property, plant and equipment and certain other assets of our subsidiaries are pledged to the lenders. As of December 31, 2019, the carrying value of property, plant and equipment, inventory and accounts receivable pledged under our loan agreements amounted to RUB 120,521 million. See note 10.1(h) to the consolidated financial statements.

Our ability to make payments on our indebtedness depends upon our operating performance, which is subject to general economic and market conditions, commodity prices, and financial, business and other factors (including the maintenance or extension of international sanctions against Russian companies and individuals, as well as sanctions imposed on certain industrial sectors), many of which we cannot control. See “— We have experienced and may continue to experience liquidity shortages and a working capital deficit.”

Among other things, high levels of indebtedness, the restrictive financial covenants in our credit facilities and breaches thereof, as well as default on our loans, could potentially: (1) limit our ability to raise capital through debt financing; (2) limit our flexibility to plan for, or react to, changes in the markets in which we compete; (3) disadvantage our group relative to our competitors with superior financial resources; (4) lead to a loss of assets pledged as security; (5) render us more vulnerable to general adverse economic and industry conditions; (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends.

We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover some or all of their investments.

Our future is dependent on our ability to refinance, restructure and service our indebtedness successfully. If we fail to do so for any reason, we may become subject to voluntary or involuntary bankruptcy proceedings, in

which case our shares and ADSs may lose all or substantial amount of their value. See “– There is substantial doubt about our ability to continue as a going concern.”

Our creditors, including the Federal Tax Service of the Russian Federation, may file a bankruptcy petition with a court seeking to declare us insolvent if we are unable to make payments to our creditors in excess of RUB 300,000 within three months of such payments becoming due. In most cases, for such petition to be accepted, the outstanding indebtedness must be confirmed by a separate court decision or arbitral award that has already entered into force. However, under the Federal Law No. 127-FZ “On Insolvency (Bankruptcy)” dated October 26, 2002, as amended (the “**Bankruptcy Law**”), financial (credit) organizations, which include our major creditors, may file a petition for bankruptcy without such separate court decision. In this case, the financial organization is required to notify the debtor and its creditors in writing at least 15 days from the date of publication of the bankruptcy petition in the Unified Federal Register of Information on Facts of Business Activity of Legal Entities. While in the past some of our creditors attempted to initiate bankruptcy proceedings against us and we have managed to settle those claims, if any creditor initiates court proceedings seeking to declare us insolvent, it could have a material adverse effect on our prospects and on the value of our shares and ADSs and may ultimately result in the inability of holders of our shares and ADSs to recover any of their investments.

From time to time, the group’s suppliers, services providers and other third-party creditors may file bankruptcy claims against us based on the formal debt limit provided by the Bankruptcy Law. Although we aim to settle such claims before court consideration, the overall debt of our group companies is substantial. There is a risk that our creditors may file bankruptcy petitions and we may be unable to settle the claims, which could have a material adverse effect on our prospects and on the value of our shares and ADSs, and our shareholders and ADS holders may lose all or substantial part of their investment.

The Bankruptcy Law is still developing and it remains subject to varying interpretations. While the Bankruptcy Law establishes the principle of adequate protection of creditors, debtors, shareholders and other stakeholders in bankruptcy, it often fails to provide instruments for such protection that are available in other jurisdictions with more developed bankruptcy procedures. Bankruptcy proceedings in Russia are often not conducted in the best interests of shareholders or creditors. In addition, Russian courts that conduct bankruptcy proceedings may be subject to a greater degree of political interference and may employ a more formalistic, and less commercially sophisticated, approach to rendering decisions than like court in other jurisdictions. Russian insolvency proceedings in the past have shown a bias towards liquidation and not rehabilitation or restructuring.

The Bankruptcy Law provides for the following order of priority for the satisfaction of creditor claims: (i) personal injury claims; (ii) employment claims (wages and severance payments) and royalty claims under copyright agreements; and (iii) all other claims. The claims of secured creditors are satisfied in accordance with a special procedure, that is, out of the proceeds of sale of the pledged or mortgaged assets. Equity claims of shareholders or ADSs holders may be satisfied only if any assets remain after all creditors have been paid in full. Therefore, there is a risk that our shareholders and ADS holders may lose all or substantial part of their investment. This risk is even more significant for ADS holders whose status in the bankruptcy proceedings is unclear.

If we fail to fulfill payment obligations under the group’s lease agreements, our lessors may require the return of the leased assets, which could materially adversely affect our business, financial condition, results of operations and prospects.

Some of our group companies have entered into lease agreements with different leasing companies for mining equipment, trucks, railcars and other assets.

Each of the lease agreements has a certain payment schedule. According to the Civil Code of the Russian Federation, as amended (the “**Civil Code**”), and the Federal Law No. 164-FZ “On Financial Leasing” dated

October 29, 1998, as amended, a lessor is generally entitled to apply to a court for the early termination of a lease agreement if the lessee fails to make two consecutive payments under the lease agreement. The lessor is required to notify the lessee in writing and request fulfillment of its obligations under the lease agreement within a reasonable time before applying to the court.

The lease agreements we have entered into generally provide the lessor with a right to terminate the contract unilaterally, without applying to the court, by way of sending a notification to the lessee in the event of non-payment within a specified period of time. The lessor is entitled to receive penalties in case of a delay in payment and early termination of the lease agreement due to the lessee's default under the lease or certain loan arrangements as the lease agreements provide for relevant cross-default provisions. Upon termination of the lease agreement, the lessor is entitled to request the return of the leased equipment. If the lessee fails to return the equipment, the lessor is entitled to receive rental payments covering the time of the delay and compensation for damages if not covered by rental payments.

In the past, we failed to fulfill payment (and other) obligations under certain lease agreements resulting in court claims from the respective lessors requesting the termination of the lease agreements and the return of the leased assets to the lessors. For example, in 2015, following our failure to fulfill payment obligations under the respective lease agreements, Caterpillar Financial 000 sent termination notices to certain of our group companies. We have not settled the claims and Caterpillar Financial 000 filed lawsuits seeking termination of lease agreements, withdrawal of leasing assets and recovery of debt in an aggregate amount of approximately \$5.2 million and €313.9 thousand. Although we were able to settle with Caterpillar Financial 000, there can be no assurance that similar breaches will not occur in the future. Any future breaches under our lease agreements resulting in the return of the leased equipment to the lessor could adversely affect our operating activities, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

We will require a significant amount of cash to fund our capital investment program.

Our business requires maintenance capital expenditures in order to maintain production levels adequate to meet the demand for our products, as well as other capital expenditures to implement our business strategy. We spent RUB 4.9 billion during 2019 on our capital expenditures (including RUB 2.4 billion in maintenance capital expenditures). In planning for 2020, we followed our current investment policy focusing only on those items that are either close to completion or are of major importance for our operations. Our capital investment program currently contemplates capital spending of up to RUB 10.2 billion in 2020 (including up to RUB 5.8 billion in maintenance capital expenditures). A considerable part of the planned capital expenditures relate to the renewal of metallurgical and mining-and-transport equipment. Overall, we plan to spend up to RUB 28.0 billion for the three-year period of 2020-2022 on capital investments (including up to RUB 18.6 billion in maintenance capital expenditures). See "Item 4. Information on the Company – Capital Investment Program."

Our ability to undertake and fund planned capital expenditures will depend on our ability to generate cash in the future and access debt financing. Lack of liquidity may jeopardize our capital expenditure plans, see "– We have experienced and may continue to experience liquidity shortages and a working capital deficit." This, to a certain extent, is subject to general economic and market conditions, financial, competitive, legislative, regulatory and other factors (including the status of international sanctions against Russian companies and individuals, as well as sanctions imposed on certain types of products in different sectors) that are beyond our control. Raising debt financing for our capital expenditures on commercially reasonable terms (or at all) may be particularly challenging given our current high levels of indebtedness and restrictive covenants imposed under the loan agreements. Any deterioration in our operating performance, including due to a worsening of economic conditions, fall in commodity prices and/or financial, business or other factors, many of which are beyond our control, may adversely and materially affect our cash flow which may leave us unable to conduct our capital expenditure plans as necessary or required, which could adversely affect our business and our ability to comply with applicable regulations.

Changes in the exchange rate of the ruble against the U.S. dollar and the euro and in interest rates may materially adversely affect our business, financial condition and results of operations.

Part of our sales are denominated in U.S. dollars, whereas the majority of our direct costs are incurred in rubles. In addition, we have foreign currency loans that are denominated in U.S. dollars and euros. Depreciation in real terms of the ruble against the U.S. dollar may result in a decrease in our costs relative to our export revenues assuming a stable level of prices for our products. Also, depreciation in real terms of the ruble against the U.S. dollar and/or euro may result in a reduction in our ability to service debt obligations denominated in U.S. dollars or euros in case of a sharp decline in sales in general and sales denominated in foreign currencies in particular. Conversely, appreciation in real terms of the ruble against the U.S. dollar may materially adversely affect our results of operations if the prices we are able to charge for our products do not increase sufficiently to compensate for the increase in real terms in our ruble-denominated expenditures. In 2019, the ruble depreciated in real terms against the U.S. dollar by 0.9% and appreciated in real terms against the euro by 4.8% as compared to 2018, according to the CBR. The ruble suffered steep drop in the beginning of 2020 from 61.91 rubles per U.S. dollar as at January 1, 2020 to 73.89 rubles per U.S. dollar as at March 18, 2020 as a result of oil prices drop and outbreak of novel coronavirus (Covid-19). See “— The Russian economy and the value of our shares and ADSs could be materially adversely affected by fluctuations in the global economy.”

In an effort to protect the country’s foreign currency reserves from substantial depletion, the CBR moved to a free floating exchange rate regime in November 2014. In response to continuing ruble depreciation, the CBR in an unexpected, emergency meeting in December 2014 increased its key rate, which determines the borrowing costs for commercial banks, from 10.5% to 17%. The CBR subsequently decreased the key rate several times between 2015 and early 2018 to 7.25%, before increasing the key rate in late 2018 to 7.75%. During 2019, the key rate was gradually lowered to 6.25% and in February 2020 further lowered to 6.0%. Interest rates under our ruble-denominated facilities with Russian state banks are linked to the CBR key rate (plus a margin above the key rate). Should the CBR key rate increase again, or should interest rates under our existing facility agreements otherwise increase, we will face higher borrowing costs, which could have a material adverse effect on our business, cash flows, financial condition, results of operations and prospects.

Discontinuation of certain interest rate benchmarks could cause the group to renegotiate certain of its credit facilities.

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (“**LIBOR**”), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“**Benchmarks**”), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation could have a material adverse effect on any instrument referencing or linked to such Benchmark.

Some of the group’s credit facilities have a floating interest rate such as LIBOR and EURIBOR, including, for example, credit facilities with VTB Bank, and if for any reason the reference rates should become unavailable, such credit facilities might need to be renegotiated. There can be no assurance that the group will be able to renegotiate such credit facilities at least on similar terms, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Inflation could increase our costs and decrease operating margins.

In 2019, 2018 and 2017, the consumer price inflation rate in Russia was 3.0%, 4.3% and 2.5%, respectively, according to the Russian Federal State Statistics Service (“**Rosstat**”). The record low level of inflation in Russia in 2017 was due to the tight monetary policy of the CBR and slowing growth of prices on consumer goods and services. The decrease in 2019 as compared to 2018 was primarily due to the strengthening of the ruble and lower prices for fuel and consumer goods and services. Inflation increases our operating costs on monetary items,

which are sensitive to rises in the general price level in Russia, including fuel and energy costs, the cost of production services and salaries (as under existing collective bargaining agreements, wage indexation takes inflation into account). Inflation could also potentially increase the prices we can charge for our products. The impact of inflation on our operating margins depends on whether we can charge higher prices corresponding with the increase in costs. Nevertheless, there is a high risk that inflation will have an overall negative impact on our operating margins.

If limitations on the conversion of rubles into foreign currencies in Russia are imposed, this could cause us to default on our obligations.

Part of our indebtedness and part of our capital expenditures are payable in foreign currencies, including the U.S. dollar and the euro. Russian legislation currently permits the conversion of ruble revenues into foreign currency without limitation. If the Russian authorities were to impose limitations on the convertibility of the ruble or other restrictions on operations with rubles and foreign currencies in the event of an economic crisis or otherwise, there may be delays or other difficulties in converting rubles into foreign currency to make a payment or delays in or restrictions on the transfer of foreign currency. This, in turn, could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business could be materially adversely affected if creditors of certain of our subsidiaries accelerate their debt.

If we decide to merge certain subsidiaries for operational reasons from time to time, under Russian law such mergers are considered to be a reorganization and the merged subsidiaries are required to publish the information regarding this reorganization twice: the first publication due at the beginning of the reorganization and the second to follow one month after the first publication. Russian law also provides that, for a period of 30 days after the date of latest publication, the creditors of merging subsidiaries have a right to file a claim seeking acceleration of the reorganized subsidiaries' indebtedness and demand reimbursement for applicable losses, except in cases where the creditors have adequate security or are provided with adequate security within 30 days after filing of such claim. In the event that we undertake any such merger and all or part of our subsidiaries' indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Russian law restrictions on depositary receipt programs limit our access to equity capital and constrain our refinancing options.

Russian companies are limited in their ability to place shares in circulation outside of Russia, including in the form of depositary receipts such as our common American Depositary Shares ("common ADSs") and our Global Depositary Shares ("GDSs"), each representing our common shares, as well as our preferred American Depositary Shares representing our preferred shares ("preferred ADSs," and together with the common ADSs, the "ADSs") due to Russian securities regulations. We received permission from the Russian Federal Financial Markets Service ("FFMS") for up to 40% of our common shares to be circulated abroad through depositary receipt programs, which was the maximum amount allowed at that time. Later we also received FFMS permission for a total of 41,627,074 preferred shares to be circulated through depositary receipt programs, representing 30% of the total number of issued preferred shares, which was the maximum amount allowed at that time. Currently, Russian securities regulations provide that no more than 25% of the total number of a Russian company's shares may be placed and circulated abroad through depositary receipt programs or otherwise. Currently the CBR is the public authority responsible for issuance of such permissions. It is unclear whether the FFMS's approvals of higher amounts prior to the establishment of this lower limit will be allowed to remain in place. As of December 31, 2019, our common ADSs and GDSs together accounted for approximately 23% of our common shares, and accordingly we believe we are limited in our ability to raise additional equity financing

through placement of common shares in the form of depositary receipts. If the current limit is enforced, Deutsche Bank Trust Company Americas (the “**depository**”) may be forced to cancel some of our common ADSs and GDSs and deliver a corresponding number of the underlying common shares to holders of common ADSs or GDSs. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

We had in the past material weaknesses in our internal control over financial reporting, and we make no assurances that any material weaknesses will not be identified in the future.

Management identified material weaknesses in our internal control over financial reporting as defined in Rule 12b-2 under the Securities Exchange Act of 1934 and Rule 1-02 of Regulation S-X that affected our financial statements for the years ended December 31, 2006, 2007, 2008, 2009, 2010, 2011, 2015 and 2016. Due to the effect of these material weaknesses, our auditors opined that we did not maintain effective internal control over financial reporting as of December 31, 2006, 2007, 2008, 2009, 2010, 2011, 2015 and 2016 under Section 404 of the Sarbanes-Oxley Act of 2002.

The latest material weakness was that we failed to operate effective controls over the IFRS financial statements close process, and this material weakness was disclosed as of December 31, 2016. We have implemented and executed our remediation plan, and as of December 31, 2017, the remediation plan activities were tested and the material weakness was considered as remediated. However, we make no assurances that no significant deficiencies or material weaknesses in our internal control over financial reporting will be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in the market price of our shares and ADSs.

We may incur impairments to goodwill or other non-current assets which could negatively affect our future profits.

We assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or a cash-generating unit’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs of disposal, recent market transactions are taken into account.

We base our impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of our group’s cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

Impairment losses of continuing operations are recognized in the consolidated statement of profit (loss) and other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, we estimate the asset's or the cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit (loss) and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as of December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The amount of goodwill on our balance sheet as of December 31, 2019 that is subject to impairment analysis was RUB 15,982 million or 5% of our total assets. This amount includes goodwill of Yakutugol, Kuzbass Power Sales Company and Port Posiet of RUB 13,399 million, RUB 1,026 million and RUB 756 million, respectively, as of December 31, 2019. See note 17 to the consolidated financial statements.

Based on the results of the impairment analysis of goodwill we performed as of December 31, 2019, an impairment loss of RUB 3,139 million was recognized. According to the results of the impairment analysis of non-current assets as of December 31, 2019, an impairment loss of RUB 1,276 million and gain from reversal of an impairment loss of RUB 2,611 million were recognized. See note 17 to the consolidated financial statements.

We continue to monitor relevant circumstances, including consumer levels, general economic conditions and market prices for our products, and the potential impact that such circumstances might have on the valuation of our goodwill and non-current assets. It is possible that changes in such circumstances, or in the numerous variables associated with our judgments, assumptions and estimates made in assessing the appropriate valuation of goodwill and recoverable value of non-financial assets, could in the future require us to further reduce our goodwill and non-financial assets and record related non-cash impairment charges. If we are required to record additional impairment charges, this could have a material adverse impact on our results of operations or financial position.

Risks Relating to Our Business and Industry

We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects.

Our mining segment sells coal (metallurgical and steam), iron ore concentrate, coke and chemical products. These commodities are traded in markets throughout the world and are influenced by various factors beyond our

control, such as global economic cycles and economic growth rates. Prices of these products have varied significantly in the past and could vary significantly in the future. For example, in 2019, coal prices were highly volatile. According to Metals & Mining Intelligence ("MMI"), a private information and research company, hard coking coal spot prices fluctuated in a wide range of \$133-211 per tonne (FOB Australia).

Our steel segment sells steel products, including semi-finished products, long products of a wide range of steel grades, carbon and stainless flat products, wire products, stampings and forgings and others, as well as ferrosilicon. Ferrosilicon is primarily used in the manufacture of steel and its market demand generally follows the cycles of the steel industry. The steel industry is highly cyclical in nature because the industries in which steel customers operate are subject to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which steel producers sell products, as well as in the global economy. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilization rates, raw materials costs, exchange rates, trade barriers and improvements in steelmaking processes. Steel products prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control.

Our power segment generates and supplies power resources. Power demand in Russia depends on its consumption by the industrial sector, as well as other factors, including the outside air temperature. In Russia, the steel and mining industries are major consumers of power and the level of production of steel and mining companies impact demand for power. Market demand for the power produced by our power segment is affected by many of the same factors and cycles that affect our mining and metals businesses.

Slowing growth of the world economy due to stagnation of economies in Europe, slowing economic growth in China and the United States, trade tensions between China and the United States and international sanctions against Russia and Russian individuals or businesses, may have adverse consequences for our customers and our business as a whole. See "– Risks Relating to the Russian Federation – Sanctions imposed by the United States and the European Union, as well as other politically related disagreements and allegations between Russia and other countries, may have a material adverse effect on our business, liquidity and financial condition, as well as the trading market for and value of our shares and ADSs."

Prices for our products, including coal, iron ore, metals, ferrosilicon and power, as well as the prices of coal, iron ore, ferroalloys, power and natural gas and other commodities and materials we purchase from third parties for the production of our products, fluctuate substantially over relatively short periods of time and expose us to commodity price risk. We do not use options, derivatives or swaps to manage commodity price risk. We use our vertically integrated business model and intersegment sales, as well as short-term and long-term purchase and sales contracts with third-party suppliers and customers, to manage such risk. In addition, the length and pricing terms of our sales contracts on certain types of products are affected and can be regulated by orders issued by Russian antimonopoly authorities. In particular, pursuant to a directive issued to us by the Russian Federal Antimonopoly Service ("FAS") in August 2008, we entered into long-term contracts for supply of certain grades of our coking coal with a formula of price calculation and with fixed volumes for the entire period of the contract. See "– Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices." Terms of sales of other types of our products may also be affected by regulations of the authorities. We cannot assure you that our strategies and contracting practices will be successful in managing our pricing risk or that they will not result in liabilities. If our strategies to manage commodity price risk and the impact of business cycles and fluctuations in demand are not successful, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

The steel and mining industries are highly competitive, and we may not be able to compete successfully.

We face competition from Russian and international steel and mining companies. Consolidation in the steel and mining sectors globally has led to the creation of several large producers, some of which have greater

financial resources and more modern facilities than our group. We also face price-based competition from emerging market producers, including, in particular, Mongolia, Indonesia, China and Columbia (in the export of raw materials for metallurgy) and China, Ukraine, Turkey, Belarus and Kazakhstan (in the export of semi-finished products and rolled products). Increased competition could result in more competitive pricing and reduce our operating margins.

Our competitiveness is based in part on our operations in Russia having a lower cost of production than competitors in higher-cost locations. We have been facing a consistent upward trend in the past several years in production costs, particularly with respect to wages and transportation. For example, our rail transportation costs increased consistently during the last three years with the railway tariff increases of 6.08% in 2017, 5.4% in 2018 and 3.6% in 2019. In addition, for export traffic, with certain exceptions, there was an additional increase to railway tariffs of 10.0% in 2017, 8.0% in 2018 and 8.0% in 2019. See “– A limited capacity of the railway infrastructure and an increase in railway tariffs expose us to uncertainties regarding transportation costs of raw materials and steel products,” “– Increasing costs of electricity, natural gas, diesel fuel and labor could materially adversely affect our operating margins” and “– Inflation could increase our costs and decrease operating margins.” If these production costs continue to increase in the jurisdictions in which we operate, our competitive advantage will be diminished, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes in our estimates of reserves or failure to implement mine development plans could result in lower than expected revenues, higher than expected costs or decreased operating margins.

We base our reserve information on engineering, economic and geological data which is assembled, analyzed and reviewed by our staff, which includes various engineers and geologists, annually and which is reviewed by independent mining engineers as of the acquisition dates as part of business combinations. The reserve estimates as to both quantity and quality are periodically updated to reflect production from reserves and new drilling, engineering or other data received. There are numerous uncertainties inherent in estimating quantities and qualities and the costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable reserves and net cash flows necessarily depend upon a number of variable factors and assumptions, such as geological and mining conditions which may not be fully identified by available exploration data or which may differ from our experience in current operations, projected rates of production in the future, historical production from the area compared with production from other similar producing areas, the assumed effects of regulation and taxes by governmental agencies and assumptions concerning prices, operating costs, mining technology improvements, mineral extraction and excise tax, development costs and reclamation costs, all of which may vary considerably from actual results. In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant commodity. Mine development plans may have to be revised due to geological and mining conditions and other factors described above, as well as due to shortages in capital funding. Our planned development projects also may not result in significant additional reserves and we may not have continuing success developing new mines or expanding existing mines beyond our existing reserves.

The financial performance of our mining segment depends substantially on our ability to mine coal reserves that have the geological characteristics that enable them to be mined at competitive costs and to meet the quality needed by our customers. Actual tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to our reserves may vary materially from estimates. Replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. Our ability to obtain other reserves through acquisitions in the future could be limited by restrictions under our existing or future loan agreements, competition from other mining companies for attractive properties, the lack of suitable acquisition candidates or the inability to acquire mining properties on commercially reasonable terms. Furthermore, we may not be able to mine all of our reserves as profitably as we do at our current operations due to increases in wages, power and fuel prices and other factors.

Therefore, changes in our estimates of reserves or failure to implement mine development plans could result in lower than expected revenues, higher than expected costs or decreased operating margins, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

The development of the Elga coal deposit is subject to certain risks due to the substantial amount of capital costs involved in developing the required infrastructure.

The risks associated with the development of the Elga coal deposit have the potential to impact the project's legal or economic viability. Key risks include the following: (1) the early termination, suspension or restriction of the right of subsoil use of the Elga coal deposit in case of any violation of the requirements of the deposit development technical plan; (2) the project requires significant capital expenditures to develop the required production and washing facilities and infrastructure, and increases in planned capital and operating costs could make the project uneconomical because of the project's sensitivity to these costs; (3) the economic viability of the project is dependent upon the full use of the rail line; (4) the project is very sensitive to market prices for coal because of the high initial capital costs; and (5) the insufficient capacity of ports in the Russian Far East where the Elga deposit is located may limit the distribution of coal mined at the Elga deposit. The realization of any of the above risks could have a material adverse effect on our business, results of operations, financial condition and prospects. In addition, capital expenditures for the rail line were not considered in the calculation of reserves estimates. While we have already invested approximately RUB 77.7 billion in the development of the Elga coal deposit (out of which approximately RUB 64.8 billion was invested in the construction of the rail line) as of December 31, 2019, its further development requires a substantial amount of investment. Failure to source sufficient funding for the Elga coal deposit would impede its further development, which in turn could have an adverse effect on our prospects. We are currently negotiating a potential sale of the Elga coal complex, for further information see "Item 4. Information on the Company – Business Strategy."

Successful implementation of our strategy to expand our coal sales depends on our ability to increase our export sales.

Our strategy to expand our coal sales, particularly high-grade coking coal and pulverized, or finely crushed, coal for injection ("PCI"), is substantially dependent on our ability to increase our production and exports of these products through ports in the Russian Far East to other countries, particularly Japan, China, Vietnam, South Korea and other Pacific Rim countries. We face a number of obstacles to this strategy, including oversupply and low demand, trade barriers and sales and distribution challenges, as well as restrictions imposed by antimonopoly legislation.

Currently, key ports in the Russian Far East have limited cargo-handling capacity, lack adequate port facilities and aging equipment. In particular, the limited capacity of the railways connecting to these ports is a critical impediment to the further development of port infrastructure and the entire transportation system in the Russian Far East. Increasing the capacity of the ports in the Russian Far East is one of the key issues identified in the "Transportation Strategy of the Russian Federation up to 2030." According to this program, existing railway sections must be reconstructed, the logistics structure must be improved and the actions of the cargo owners, the ports' management, Rosmorport, a state-owned enterprise established for seaports management, and Russian Railways, an open joint-stock company wholly owned by the Russian government, must be better coordinated. In addition, the shortage and poor condition of the locomotive fleet of Russian Railways, as well as major railway track repairs by Russian Railways in the summer months, result in restrictions on cargo volumes and increases in delivery times. Slowdown in train movements in the winter months has a negative impact on the state of bulk cargo as freezing occurs due to low temperatures, which further reduces the rate of discharge in ports and leads to congestion of railcars in the railway network.

Although the total annual capacity of the Baikal-Amur Mainline to which our Elga deposit is connected by our private rail line is gradually increasing upon implementation of a set of actions set forth in the State Program of the Russian Federation "Development of Transport System," its capacity will need to be further expanded in

order to comply with the general declared volumes for cargo transportation on the Baikal-Amur Mainline. In 2019, Russian Railways announced the beginning of the second phase of the railway infrastructure development program, the purpose of which is to increase the capacity of the Baikal-Amur and Trans-Siberian Mainlines by 2024. However, there can be no assurance that the development projects by Russian Railways will proceed according to existing plans, particularly in light of international sanctions against Russian companies and individuals. In addition, there is acute competition among Russian coal exporters for existing port capacity. In light of this shortage, Russian coal producers have endeavored to acquire ports or separate terminals to ensure the export of their products.

Our ability to increase coking coal export volumes is also limited by requirements to first satisfy Russian domestic coal demand, pursuant to a FAS directive issued to us in August 2008. See “– Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.” Failure to successfully manage the obstacles and tasks involved in the implementation of our export sales strategy could have a material adverse effect on our business, financial condition, results of operations and prospects.

In the event the title to the shares of any company we acquired is successfully challenged, we risk losing our ownership interest in that company or its assets.

Almost all of our Russian assets consist of companies formed during the course of Russian privatizations in the 1990s and early 2000s and generally we acquired shares in these companies from third parties after their respective privatizations. Many privatizations are arguably deficient and, therefore, vulnerable to challenge because the relevant privatization legislation is vague, inconsistent or in conflict with other legislation. In the event that the privatization of any of our companies is successfully challenged, we could risk losing our ownership interest in that company or its assets, which could materially adversely affect our business, financial condition and results of operations.

In addition, under Russian law transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transaction rules and/or the terms of transaction approvals issued by governmental authorities, or failure to register the share transfer in the securities register. As a result, defects in earlier transactions with shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge.

Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits.

Our business depends on the continuing validity of our subsoil licenses and the issuance of new and extended subsoil licenses and our compliance with the terms thereof. In particular, in estimating our reserves, we have assumed that we will be able to renew our Russian subsoil licenses as and when necessary in the ordinary course of business so that we will be able to exploit the resources under such licenses for the operational life of the relevant subsoil plot. See “Item 4. Information on the Company – Regulatory Matters – Subsoil Licensing in Russia – Extension of licenses” and “– Mining Segment – Mineral reserves.” However, license extension is subject to the licensee being in compliance with the terms of the license. Our experience with license extensions and publicly available information about current market practice and available court practice suggest that regulatory authorities tend to focus on such terms of the license as production levels, operational milestones and license payments, which are considered to be material terms of the license. Nevertheless, there is no assurance that this approach will be consistently applied by the regulatory authorities and the courts, or that this approach will not change in the future. Regulatory authorities exercise considerable discretion in the timing of license issuance, extension of licenses and monitoring licensees’ compliance with license terms. Subsoil licenses and related agreements typically contain certain environmental, safety and production commitments. See “Item 4. Information on the Company – Regulatory Matters – Subsoil Licensing in Russia – Maintenance and

termination of licenses.” If regulatory authorities determine that we have violated the material terms of our licenses, it could lead to rejection of our license extensions or suspension or termination of our subsoil licenses, and to administrative and civil liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. Our subsoil licenses expire on dates falling in 2021 through 2037. See the tables setting forth expiry dates of our Russian subsoil licenses in “Item 4. Information on the Company – Mining Segment” and reserves information. Accordingly, these factors may seriously impair our ability to operate our business and realize our reserves which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We currently do not comply with the material terms of certain Russian subsoil licenses. In particular, we failed to commence commercial coal production at the Rapsadsk license area (part of Olzherassky Open Pit) in 2009 as required by the license due to unfavorable mine economics. In addition, we commenced preparation for the commercial development of the Yerunakovsk-1, Yerunakovsk-2 and Yerunakovsk-3 license areas, but failed to commence commercial production at these subsoil areas in 2011 as required by the licenses due to unfavorable mine economics. As a result, in April 2017, the subsoil use right for the Yerunakovsk-2 license area was early terminated by the Federal Agency for Subsoil Use (“Rosnedra”). Moreover, we cannot fully develop the deposit at the Yerunakovsk-3 license area due to the presence of a third-party sludge pond in this area. In August 2019, Rosnedra notified us of a possible early termination of the subsoil use right for the Yerunakovsk-1 and Yerunakovsk-3 license areas, if within one year the existing violations are not eliminated. Furthermore, we failed to commence commercial coal production at the Olzherassk license area (Olzherasskaya-Glubokaya Underground) in 2012 due to unfavorable mine economics and the significant capital investments required to develop this license area. In addition, we did not meet the deadlines for exploration completion, preparation for the commercial development and commencement of mining of the Pionerskoye and the Sivaglinskoye iron ore deposits due to lack of financing. As a result, in December 2019, Rosnedra early terminated the subsoil use right for the Pionerskoye and the Sivaglinskoye deposits. The Yerunakovsk-1, Yerunakovsk-3 and Olzherassk (Olzherasskaya-Glubokaya Underground) license areas are not counted for the purposes of our coal reserves.

Increasing costs of electricity, natural gas, diesel fuel and labor could materially adversely affect our operating margins.

In 2019, our Russian operations purchased in the wholesale and retail electricity and capacity markets approximately 3.2 billion kilowatt-hours (“kwh”) of electricity at a total cost of approximately RUB 9.4 billion, implying an average cost of approximately RUB 2.96 per kwh. According to the Ministry of Economic Development of the Russian Federation estimates, the average increase in market prices in the wholesale electricity market is expected to be 5.6% in 2020. Further price increases for electricity may also occur in the future due to the increase in fuel prices.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of power resources at our own co-generation facilities, from Novatek PAO (“Novatek”), Russia’s largest independent producer of natural gas, Rosneft Oil Company (“Rosneft”), the government-controlled leader of Russia’s petroleum industry, and Gazprom PAO (“Gazprom”), the government-controlled dominant gas producer and the owner of the unified gas supply system of Russia. Domestic natural gas prices are regulated by the Russian government. In 2019, we purchased approximately 1.8 billion cubic meters of gas at a total cost of approximately RUB 7.4 billion. Russian domestic natural gas prices are significantly below Western European levels, which provides us with a cost advantage over our competitors, an advantage which may diminish as Russian domestic gas prices approach Western European levels. Starting from July 1, 2019, the FAS set wholesale prices of gas produced by Gazprom for domestic consumers on the territory of the Russian Federation, except for households, in the range of RUB 2,610 to RUB 5,097 per thousand cubic meters, as compared to prices set for the previous period which were set starting from August 21, 2018 in the range of RUB 2,574 to RUB 5,097 per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased.

We use petroleum products, in particular diesel fuel, as fuel for technological transport in our mining operations. In 2019, our Russian operations purchased approximately 182.7 thousand tonnes of diesel fuel at a total cost of approximately RUB 8.3 billion. The Russian diesel fuel market is controlled by a limited number of oil companies, including our major suppliers such as Rosneft, Gazprom Neft PJSC and LUKOIL PJSC. There is a free pricing regime for commercial consumers of petroleum products in Russia.

Following raw materials used in the production process and energy-related costs, our labor costs are the next most significant operational cost. Labor costs in Russia have historically been significantly lower than those in the more developed market economies of North America and Western Europe for similarly skilled employees. However, the average wage in the Russian Federation has increased in recent years, for example, by 2.9% and 8.5% in 2017 and 2018, respectively, according to Rosstat. Labor costs in Russia are indexed to and adjusted for inflation, which means that in the future labor costs may rise and our advantage with respect to our competitors with foreign operations that have historically had to pay higher average wages than those paid in Russia may be reduced.

Higher costs of electricity, natural gas, diesel fuel and labor could negatively impact our operating margins, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

A limited capacity of the railway infrastructure and an increase in railway tariffs expose us to uncertainties regarding transportation costs of raw materials and steel products.

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to customers in Russia and abroad. The Russian rail system is controlled by Russian Railways, which is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation, including the terms related to the type of rolling stock to be used for transportation of certain types of cargo and the estimated minimum tonnage for the purposes of determining the applicable tariff. These rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways' capital investment program, which is in turn affected by the acute need to upgrade track infrastructure and passenger- and cargo-handling facilities.

Our cargoes are currently transported in the railcars owned by our subsidiary Mecheltrans or third-party railcar owners, mainly to transport coal products and iron ore concentrate. Mecheltrans works with third-party railcar owners to arrange for transportation and forwarding cargoes with their railcars. The most significant railcar owners used by Mecheltrans for rail transportation include Federal Freight JSC, TFM-Operator OOO, Titan AO, First Industrial Operator OOO and New Forwarding Company JSC. In 2019, our freight volume transported by third-party railcar owners amounted to 15.6 million tonnes, for which we paid RUB 9.8 billion.

In 2019, railway tariffs were indexed by 3.6%. Starting from January 1, 2020, railway tariffs have increased by an additional 3.5%. Along with the growth of tariff levels, a disruption in the transportation of our raw materials and products may occur. In recent years, the ban to extend the service life of railcars, the shortage of spare parts for their repair, as well as the deficit of the railcar fleet as a result of scheduled railway track repairs have led to a significant increase in prices of rolling stock operators' services and a reduction in volume of transported cargo, including our cargo. In 2019, price increase for operators' services ceased, however all of the above factors may arise in the future and negatively impact our operating margins, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face certain trade restrictions in the export of ferrosilicon to the European Union.

In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. In February

2013, the European Commission initiated an expiry review of the antidumping measures applicable to imports of ferrosilicon. In April 2014, the antidumping duty was extended for another five years. In July 2018, the European Commission issued a notice of the impending expiry of certain antidumping measures stating that the antidumping duty will expire in April 2019 unless EU ferrosilicon producers submitted a written request for review which contains sufficient evidence that the expiry of the measures would be likely to result in a continuation or recurrence of dumping and injury. On April 2, 2019, a notice on the initiation of an expiry review of the antidumping measures applicable to imports of ferrosilicon originating from Russia and the People's Republic of China was issued by the European Commission, which is ongoing. During the review period by the European Commission, the antidumping duty continues to apply. Currently, we cannot predict whether the antidumping duty will be prolonged. However, even if this antidumping measure expires, we may face additional antidumping duties and other trade restrictions in the European Union, the United States and other markets in the future. See "Item 4. Information on the Company – Steel Segment – Trade restrictions."

We benefit from Russia's tariffs and duties on imported steel, many of which have been reduced upon Russia's WTO membership and may be eliminated in the future.

Russia has in place import tariffs with respect to certain imported steel products that are generally advantageous to our business. These tariffs generally amount to 5% of the value of the imports. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2019. The Republic of Belarus, the Republic of Kazakhstan and the Russian Federation entered into a Customs Union and implemented a Common Customs Tariff, which came into force on January 1, 2010, reducing import duties on stainless rolled products from 15% to 5%. Further, the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation established the Eurasian Economic Union which was enlarged in 2015 to include the Republic of Armenia and the Kyrgyz Republic. Creation of the Customs Union, as well as other actions and decisions of the Russian authorities in respect of tariffs and duties, can lead to further reduction of import duties.

Upon Russia's entry into the World Trade Organization ("WTO"), the import tariffs and duties of Russia were reduced or eliminated, depending on the type of steel products. In particular, according to the WTO accession terms Russian import duties on most types of steel products have been reduced to 5%, causing increased competition in the Russian steel market from foreign producers and exporters. A further reduction in such protective tariffs could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to mining and steelmaking operational risks.

Our operations, like those of other mining and steel companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, as well as the process of steelmaking, any of which could result in production shortfalls or damage to persons or property.

In particular, hazards associated with our open pit mining operations include, but are not limited to: (1) flooding of the open pit; (2) collapses of the open pit wall; (3) accidents associated with the operation of large open pit mining and rock transportation equipment; (4) accidents associated with the preparation and ignition of large-scale open pit blasting operations; (5) deterioration of production quality due to weather; and (6) hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination.

Hazards associated with our underground mining operations include, but are not limited to: (1) underground fires and explosions, including those caused by flammable gas; (2) cave-ins or ground falls; (3) emissions of gases and toxic chemicals; (4) flooding; (5) sinkhole formation and ground subsidence; and (6) other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine, including due to human error.

Hazards associated with our steelmaking operations include, but are not limited to: (1) accidents associated with the transportation of molten metal; (2) emissions of flammable gases and toxic chemicals; (3) accidents

caused by the interaction of wet materials (charge) with molten metal; and (4) other accidents associated with high melting points of metal, including due to human error.

We are at risk of experiencing any and all of these hazards. The occurrence of such hazards could delay production, increase production costs, result in injury to persons or death, and damage to property, as well as liability for us. In 2019, production accidents at our steelmaking operations resulted in three fatalities. Also, there was a self-heating of coal at Olzherasskaya-Novaya Underground in 2019, which caused the temporary suspension of mining operations. We continue to implement measures to cure the causes of this occasion and plan to resume production in June 2020. We are implementing measures aimed at preventing production accidents and occasions in the future and we are cooperating with the competent governmental authorities, in particular, the Russian Federal Service for Ecological, Technological and Nuclear Supervision ("Rostekhnadzor").

The risk of occurrence of these hazards is also exacerbated by the significant level of age and use of the equipment of our enterprises. We are conducting a program of phased replacement and refurbishment of obsolete equipment in order to meet industrial safety requirements at our most hazardous facilities.

Abnormal weather conditions and natural hazards could negatively impact our business.

Our production facilities are located in different climate and weather conditions, and abnormal weather changes and natural hazards could affect their operations. Interruptions in electricity supply and transport communication could lead to delays in deliveries of raw materials to our production facilities and finished products to consumers, as well as a suspension of production. For example, in the first quarter of 2019, as a result of a calm weather which caused a high gas contamination of the mine, mining operations at Korshunovsky Open Pit were suspended for 15 days. In August 2017, due to the typhoon Noru which came to Primorsky Krai, there was a power outage and wash-out of roads and a railway track towards Port Posiet, and as a result, all loading and unloading operations in the port were suspended for 10 days. The railway repair and restoration works lasted approximately two months, during which the transportation of goods to Port Posiet was limited. In addition, the existence of abnormally low temperatures for a long period of time may limit the work of the port infrastructure, crane equipment and mining-and-transport equipment. The negative impact of such abnormal or extreme climate and weather conditions may have an adverse effect on our business, financial condition, results of operations and prospects.

More stringent environmental laws and regulations or more stringent enforcement or findings that we have violated environmental laws and regulations could result in higher compliance costs and significant fines and penalties, or require significant capital investment, or even result in the suspension of our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations and properties are subject to extensive environmental control and regulation in the jurisdictions in which we operate. For instance, our operations generate large amounts of pollutants contained in air emissions, waste water and industrial waste, some of which are hazardous, such as benzapiren, sulfur oxide, sulfuric acid, nitrogen ammonium, sulfates, nitrites and phenicols. Some of our operations result in the creation of sludges, including sludges containing base elements such as chromium, copper, nickel, mercury and zinc. The creation, storage and disposal of such hazardous waste is subject to environmental regulations, including the requirement to perform decontamination and reclamation, such as cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental and civil laws is clearly determinable. In 2019, as a result of an independent environmental audit of our production facilities located in the Chelyabinsk region, we signed an agreement on implementation of a set of measures aimed at improving the environmental situation in the region and reducing air emissions by 2024. Furthermore, more stringent regulations have been introduced in a number of countries in response to the impacts of climate change. See "Increased regulations

associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.”

Environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. However, environmental laws and regulations are continually changing and are generally becoming more restrictive. New laws and regulations, the imposition of more stringent requirements for licenses, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licenses, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment or perform site clean-ups, the curtailment of operations or the payment of fees, fines and other penalties. For example, since October 2019, marine transport infrastructure facilities used for coal transshipment must comply with the best available technologies aimed at reducing pollutants discharge. Failure to comply with the requirements to equip business and other facilities located within the boundaries of water protection zones with structures ensuring the protection of water bodies from pollution, clogging, silting and depletion of water entails the imposition of an administrative fine or administrative suspension of operations for up to 90 days. Moreover, the introduction of more stringent environmental laws and regulations could lead to the need for new or additional rehabilitation and decommissioning reserves or to an increase in our environmental liabilities, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2019, we did not create any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of RUB 5,403 million for rehabilitation provision. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided reserves.

In the course, or as a result, of an environmental investigation by the Russian governmental authorities, courts can issue decisions requiring part or all of the production at a facility that has violated environmental standards to be halted for a period of up to 90 days. We have been cited in Russia for various violations of environmental regulations in the past and we have paid certain fines levied by regulatory authorities in connection with these infractions. For example, in November 2017, the Russian Federal Service for the Supervision of Natural Resources (“Rosprirodnadzor”) conducted an inspection of Port Posiet and ordered it to equip the port area with a rainwater sewage system by October 1, 2018. In October 2018, Rosprirodnadzor extended the implementation date of this order until September 30, 2019. In October 2019, the implementation date was extended until September 1, 2020. In February 2018, the Khasansky District Court in Primorsky Krai also obliged Port Posiet to remedy violations of environmental and sanitary-epidemiological legislation until April 2019. Port Posiet implemented preparatory works for commencement of construction of the required treatment facilities, and in August 2019 applied for a stay of execution. The court allowed Port Posiet to stay of execution until November 1, 2020.

Though our production facilities were not ordered to suspend operations due to environmental violations in the past, there are no assurances that environmental protection authorities will not seek such suspensions in the future. In 2017, the Department of Rosprirodnadzor for the Chelyabinsk region cancelled the permit for emissions of pollutants into the atmosphere issued to Mechel Coke. However, Mechel Coke challenged the cancellation, and, in February 2018, the cancellation was invalidated by a court.

Several criminal cases were initiated for violation of rules for handling of environmentally hazardous substances and wastes, as well as for excess of maximum permissible concentrations of harmful chemicals in the air in Chelyabinsk. In 2019, a number of employees of Mechel Coke were indicted of causing air pollution, however the criminal proceedings were discontinued due to the expiration of the term of criminal prosecution. Criminal charges for violating the environmentally hazardous substances handling rules were also brought against employees of Chelyabinsk Metallurgical Plant. It should be noted that the plaintiff has a right to bring civil claims for environmental damage compensation even if the criminal cases were terminated due to the expiration of the term of criminal prosecution and for other so-called non-rehabilitative grounds. Furthermore,

respective orders of investigative and judicial authorities, court judgments in criminal cases could also serve as grounds for awarding damages against us under environmental claims.

In general, the pollutants emission into the atmosphere and discharge into the waters, as well as the disposal of industrial and consumer waste in the absence of a permit is an administrative violation that may lead to the imposition of a fine or suspension of operations for up to 90 days, and in some cases may also lead to criminal liability of individuals including key management personnel of the group. In addition, in the absence of the permit, much higher fee tariffs apply as the entire volume of emissions, discharges and waste becomes above-limit. Any suspension of our operations due to environmental violations could have a material adverse effect on our business, financial condition, results of operations and prospects.

Increased regulations associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.

Through our mining segment, we are a major producer of carbon-related products such as coal and coal concentrate. A major by-product of the underground mining of coal is methane (CH₄) and a major by-product of coal burning is carbon dioxide (CO₂), both of which are considered to be greenhouse gases and generally a source of concern in connection with global warming and climate change.

The December 1997 Kyoto Protocol established a set of greenhouse gas emission targets for developed countries that have ratified the Kyoto Protocol. In order to give the countries a certain degree of flexibility in meeting their emission reduction targets, the Kyoto Protocol developed mechanisms allowing participating countries to earn and trade emissions credits by way of implementing projects aimed at meeting the Kyoto Protocol targets. The European Union has established greenhouse gas regulations and many other countries are in the process of doing so. The European Union Emissions Trading System ("EU ETS") has had an impact on greenhouse gas and energy-intensive businesses based in the European Union. Our operations in Lithuania are currently subject to the EU ETS, as are our EU-based customers.

The Russian Federation ratified the Kyoto Protocol in 2005 and, since October 2009, Russia has established a legal procedure for implementing trading mechanisms provided under the Kyoto Protocol. However, in 2012, Russia refused to sign up for the second period of limits set to begin in 2013 and remain in effect until 2020.

In December 2015 at the Paris climate conference, 196 countries adopted the United Nations Framework Convention on Climate Change. The agreement sets out a global action plan to avoid climate change. Russia ratified the Paris Agreement and it came into force on November 6, 2019. Russia's target as part of the Paris agreement is to reduce greenhouse gas emissions to 70-75% of 1990 levels by 2030, provided that the maximum absorption capacity of forests is reached. Furthermore, the Russian Federation shall develop a long-term plan to reduce greenhouse gas emissions and shall establish a strategy on adaptation to climate change. In 2015-2017, the Ministry of Natural Resources and Ecology of the Russian Federation has approved a number of methodology guidelines for the quantification of the amount of greenhouse gas emissions by organizations conducting business and other activities in Russia. In 2018, the Ministry of Economic Development of the Russian Federation proposed a draft law on state regulation of greenhouse gas emissions. This draft law, if enacted, would establish target limits for greenhouse gas emissions, general rules and guidelines for emitters and introduce permits for greenhouse gas emissions. The draft law is at the stage of development, and it is hard to predict if or when it would be adopted into a law.

Further Russia's steps on implementation of the United Nations Framework Convention on Climate Change could restrict our operations and/or impose significant costs or obligations on us, including requiring additional capital expenditures, modifications in operating practices, and additional reporting obligations. These regulatory programs may also have a negative effect on our production levels, profit and cash flows and on our suppliers and customers, which could result in higher costs and lower sales. Finally, we note that even without further legislation or regulation of greenhouse gas emissions, increased awareness and any adverse publicity in the

global marketplace about the greenhouse gases emitted by companies in the steel manufacturing industry could harm our reputation and reduce customer demand for our products.

Failure to comply with existing laws and regulations could result in substantial additional compliance costs or various sanctions which could materially adversely affect our business, financial condition, results of operations and prospects.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. See “Item 4. Information on the Company – Regulatory Matters – Licensing of Operations in Russia.” Governmental authorities in countries where we operate exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations, and in monitoring licensees’ compliance with the terms thereof which may result in unexpected audits, criminal prosecutions, civil actions and expropriation of property. Governmental authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties.

Our failure to comply with existing laws and regulations or to obtain and comply with all approvals, authorizations and permits required for our operations or findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Any such actions, decisions, requirements or sanctions could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects.

The concentration of our shares with our largest shareholders will limit your ability to influence corporate matters and transactions with largest shareholders may present conflicts of interest, potentially resulting in the entering into transactions on less favorable terms than could be obtained on arm’s length basis.

Our Chairman, Igor Zyuzin may be deemed to be the beneficial owner of approximately 28.07% of our common shares. Our Chairman’s wife Mrs. Irina Zyuzina may be deemed to be the beneficial owner of approximately 19.20% of our common shares. Mr. Kirill Zyuzin, son of Mr. Igor Zyuzin and Mrs. Irina Zyuzina, may be deemed to be the beneficial owner of approximately 18.85% of our common shares. Ms. Ksenia Zyuzina, daughter of Mr. Igor Zyuzin and Mrs. Irina Zyuzina, may be deemed to be the beneficial owner of approximately 26.97% of our common shares. Therefore, Mr. Igor Zyuzin and Mrs. Irina Zyuzina together beneficially own 47.27% of our common shares. See “Item 7. Major Shareholders and Related Party Transactions.” Except in certain cases as provided by the Federal Law “On Joint-Stock Companies,” dated December 26, 1995, as amended (the “**Joint-Stock Companies Law**”), resolutions at a general shareholders’ meeting are adopted by a majority of the voting stock at a meeting where shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin and his family members have the power to control the outcome of most matters to be decided by a majority of the voting stock present at a general shareholders’ meeting and can control the appointment of the majority of directors and the removal of all of the elected directors if they act in concert. In addition, our largest shareholders are likely to be able to take actions, which require a three-quarters supermajority of the voting stock present at such a general shareholders’ meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, if other shareholders do not participate in such meeting. Thus, our largest shareholders can take actions that you may not view as beneficial or prevent actions that you may view as beneficial, and as a result, the value of our common shares and ADSS could be materially adversely affected.

We have also engaged and will likely continue to engage in transactions with related parties, including our largest shareholder, which may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm’s length transactions. See “Item 7. Major Shareholders and Related Party Transactions – Related Party Transactions.”

Our competitive position and future prospects depend on our senior management team.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the performance of our senior management team and, in particular, Mr. Zyuzin, our Chairman and largest shareholder. Competition in Russia, and in the other countries where we operate, for senior management personnel with relevant expertise is intense due to the limited number of qualified individuals. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified senior management personnel could have a material adverse effect on our business, financial condition, results of operations and prospects.

Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

Our business has grown substantially through the acquisition and founding of companies, many of which required the prior approval or subsequent notification of the FAS or its predecessor agencies. Relevant legislation restricts the acquisition or founding of companies by legal entities or individuals acting alone or jointly with their group of persons without such approval or notification. This legislation is vague in certain parts and subject to varying interpretations. If the FAS were to conclude that a company was acquired or created in contravention of applicable legislation and that competition has been or could be limited as a result, it could seek redress, including invalidating the transactions that led to or could lead to the limitation of competition, obliging the acquirer or founder to perform activities to restore competition, and seeking the dissolution of the new company created as a result of reorganization. Any of these actions could materially adversely affect our business, financial condition, results of operations and prospects.

In 2008, the FAS issued a number of directives to our companies placing certain restrictions on our business practices. On May 13, 2008, the FAS issued a directive ordering Mechel and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market, to fulfill the following requirements:

- to avoid the unjustified reduction of production volumes and product range at Southern Kuzbass Coal Company;
- to provide, to the extent possible, equal supply terms to all customers without discrimination against companies not forming part of this group of companies;
- not to restrict other companies from supplying coking coal to the same geographical area of operations; and
- to notify the FAS prior to any increase in domestic prices of coking coal and coking coal concentrate, if such increase amounts to more than 10% of the relevant price used 180 days before the date such increase is planned to take place, with submission to the FAS of the financial and economic reasoning for the planned increase of prices.

In connection with the establishment of Mechel Mining, the subsidiary into which we consolidated certain of our mining assets, we received a directive from the FAS dated June 23, 2008, which contains requirements as to the activities of Mechel Mining and its subsidiaries Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market. The requirements are the same as those described above.

In August 2008, as a result of an antimonopoly investigation into the business of our subsidiaries Mechel Trading House, Southern Kuzbass Coal Company, Yakutugol and Mechel Trading, the FAS found them to have abused their dominant position in the Russian market for certain grades of coking coal concentrate. The FAS issued a directive requiring these subsidiaries and their successors to, among others, refrain from taking any action in the Russian market for certain grades of coking coal concentrate which would or may preclude, limit or

eliminate competition and/or violate third parties' interests, including fixing and maintaining a monopolistically high or low price, refusing or avoiding to enter into an agreement with certain buyers without good economic or technological reasons where the production or supply of the relevant grades of coking coal concentrate is possible and creating discriminatory conditions for buyers. Furthermore, material fines were imposed on Mechel Trading House, Southern Kuzbass Coal Company and Yakutugol.

In the event of a breach of the terms of business conduct set forth by the FAS, the FAS may seek to impose fines for violations of antimonopoly and administrative legislation. Such fines may include an administrative fine of an amount from RUB 300,000 to RUB 1 million or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of revenue from sale of all goods, works and services in the market where such violation was committed, but not more than 2% of total revenue from sale of all goods, works and services in case of abuse of a dominant position and not more than 4% of total revenue from sale of all goods, works and services in case of conclusion of an inadmissible agreement according to the law. Russian legislation also provides for criminal liability for violations of antimonopoly legislation in certain cases. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization. The imposition of any such liability on us or our subsidiaries could materially adversely affect our business, financial condition, results of operations and prospects.

In 2016 and 2017, the FAS conducted large-scale inspections of companies engaged in loading, unloading and storage of cargoes in ports of the Russian Federation concerning justification of applied tariffs for services. Based on the findings, a number of companies were found to have violated antimonopoly legislation in part of setting monopolistically high prices for services and were required to pay significant funds to the state budget. Our group companies which provide services of loading, unloading and storage of cargoes in ports were not subject to proceedings for violation of antimonopoly legislation in part of setting monopolistically high prices, however a possibility of new inspections remains.

Negative publicity associated with any antimonopoly, administrative, criminal or other investigation or prosecution carried out with respect to our business practices, regardless of the outcome, could damage our reputation and result in a significant drop in the price of our shares and ADSs and could materially adversely affect our business, financial condition, results of operations and prospects.

In the event that the minority shareholders of our subsidiaries were to successfully challenge past interested party transactions or do not approve interested party transactions in the future, we could be limited in our operational flexibility.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly-owned subsidiaries have previously had other shareholders. We and our subsidiaries have carried out, and continue to carry out, transactions among our companies which may be deemed controlling or controlled entities in relation to each other, as well as transactions with other parties which may be considered to be "interested party transactions" under Russian law. Since 2017, such transactions, generally, do not require prior consent of disinterested directors, disinterested independent directors or disinterested shareholders. However upon request of a sole executive body, a member of the collegial executive body, a member of the board of directors or a shareholder or group of shareholders holding in aggregate at least 1% of the voting shares, such prior consent must be obtained. The provisions of Russian law defining for which transactions a consent must be obtained are subject to different interpretations, and these transactions may not always be properly approved, including by former shareholders. We cannot make any assurances that our and our subsidiaries' applications of these rules will not be subject to challenge by shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, Russian law requires a three-quarters majority of the voting stock present at a general shareholders' meeting to approve certain matters, including, for example, charter amendments, reorganizations, major transactions involving property in excess of 50% of the balance sheet value of the company's assets, acquisition by the company of outstanding shares and certain share issuances. In some cases, minority shareholders may not give prior consent to interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders or a shareholder holding at least 1% of the voting shares were to successfully challenge past interested party transactions, or do not approve or give prior consent to interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

A majority of our employees are represented by trade unions, and our operations depend on good labor relations.

As of December 31, 2019, approximately 56% of all our employees were represented by trade unions. Although we have not experienced any business interruption at any of our companies as a result of labor disputes from the dates of their respective acquisition by us, and we consider our relations with our employees to be good. Under Russian law, unions have the legal right to strike and other Russian companies with large union representation periodically face interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relationships with our labor force and trade unions worsen in the future. We have extended the industry agreements for coal and ore mining and smelting industries and have renegotiated most related collective bargaining agreements. If we are unable to prolong collective bargaining agreements on similar conditions in the future or our employees are dissatisfied with the terms of the collective bargaining agreements and undertake any industrial action, it could have material adverse effects on our business, financial condition, results of operations and prospects.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant adverse event could result in substantial property loss and inability to rebuild in a timely manner or at all.

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, most of our Russian production facilities are not insured, and we have no coverage for business interruption or for third-party liability, other than insurance required under Russian law, collective bargaining agreements, loan agreements or other undertakings. Some of our international production facilities are not covered by comprehensive insurance typical for such operations in Western countries. We cannot assure you that the insurance we have in place is adequate for the potential losses and liabilities we may suffer.

Since most of our production facilities lack insurance covering their property, if a significant event were to affect one of our facilities, we could experience substantial financial and property losses, as well as significant disruptions in our production activity, for which we would not be compensated by business interruption insurance.

Since we do not maintain separate funds or otherwise set aside reserves for these types of events, in case of any such loss or third-party claim for damages we may be unable to seek any recovery for lost or damaged property or compensate losses due to disruption of production activity. Any such uninsured loss or event may have a material adverse effect on our business, financial condition, results of operations and prospects.

If transactions, corporate decisions or other actions of members of our group and their predecessors-in-interest were to be successfully challenged on the basis of non-compliance with applicable legal requirements, the consequences could include the invalidation of such transactions, corporate decisions or other actions or the imposition of other liabilities on such group members.

Businesses of our group, or their predecessors-in-interest at different times, have taken a variety of actions relating to the incorporation of entities, share issuances, share disposals and acquisitions, mandatory buy-out offers, acquisition and valuation of property, including land plots, interested party transactions, major transactions, decisions to transfer licenses, meetings of governing bodies, other corporate matters and antimonopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our group or their predecessors-in-interest, could result in the invalidation of such actions, transactions and corporate decisions, restrictions on voting rights or the imposition of other liabilities. As applicable laws of the jurisdictions where our group companies are located are subject to varying interpretations, we may not be able to defend successfully any challenge brought against such actions, decisions or transactions, and the invalidation of any such actions, transactions and corporate decisions or imposition of any restriction or liability could have a material adverse effect on our business, financial condition, results of operations and prospects.

Terrorist attacks and threats, outbreaks or escalations of armed hostilities, as well as massive cyber-attacks or incidents, and government regulation in response to such attacks or acts of war may negatively affect our business, financial condition, results of operations and prospects.

We may be subject, directly or indirectly, to terrorist attacks and threats, outbreaks or escalations of armed hostilities, as well as massive cyber-attacks or incidents, and an increase in government regulation in response to such attacks or acts of war. These events could cause delays or losses in transportation and deliveries of our products to our customers, increased government regulation, decreased sales due to disruptions in the businesses of our customers, harm to people, the environment and our assets, and the loss or misuse of data, intellectual property or other sensitive information. Any such occurrences could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations may be adversely affected by disruptions to our information technology systems, including disruptions from cybersecurity incidents.

As is typical of modern businesses, Mechel is reliant on the continuous and uninterrupted operation of its information technology ("IT") systems. User access and security of all our sites and IT systems can be critical elements to our operations. In particular, we depend on our IT systems for a variety of functions, including automated machinery, financial reporting, data management and email communications. Any IT failure pertaining to availability, access or system security could potentially result in disruption of our activities and personnel, and could adversely affect our reputation, business, financial condition, results of operations and prospects.

Potential risks to IT systems could include unauthorized attempts to extract business sensitive, confidential or personal information, denial of access extortion, corruption of information or disruption of business processes, or inadvertent or intentional actions by our employees or vendors. A cybersecurity incident resulting in a security breach or failure to identify a security threat could disrupt our business or operations and could result in the loss of sensitive, confidential or personal information or other assets, as well as litigation, regulatory enforcement, violation of privacy or securities laws and regulations, and remediation costs, all of which could materially impact our business or reputation.

We have used certain information in this document that has been sourced from third parties and may not be reliable.

We have sourced certain information contained in this document from independent third parties, including private companies, government agencies and other publicly available sources. We believe these sources of information are reliable and that the information fairly and reasonably characterizes the industry in countries where we operate. However, although we take responsibility for compiling and extracting the data, we have not independently verified this information. In addition, the official data published by Russian federal, regional and local governments may substantially differ from those of Western countries. Official statistics may also be produced on different bases than those used in Western countries.

Risks Relating to Our Shares and ADSs and the Trading Market

The price of our shares and ADSs could be volatile and could drop unexpectedly, making it difficult for investors to resell our shares or ADSs at or above the price paid.

The price at which our shares and ADSs trade is influenced by a large number of factors, some of which are specific to us and our operations and some of which are related to the mining and steel industries and equity markets in general. As a result of these factors, investors may not be able to resell their shares or ADSs at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of our shares and ADSs:

- investor perception of us as a company;
- actual or anticipated fluctuations in our revenues or operating results;
- announcement of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings;
- changes in our dividend policy, which could result from changes in our cash flow and capital position;
- sales of blocks of our common shares, common ADSs, preferred shares or preferred ADSs by significant shareholders;
- terms and timing of any refinancing or restructuring of our indebtedness;
- actual or potential litigation involving us;
- changes in financial estimates and recommendations by securities research analysts;
- fluctuations in Russian and international capital markets, including those due to events in other emerging markets;
- the performance of other companies operating in similar industries;
- regulatory developments in the markets where we operate, especially Russia and the European Union;
- international political and economic conditions, including the effects of fluctuations in foreign exchange rates, interest rates and oil prices and other events such as terrorist attacks, military operations, changes in governments and relations between countries, international sanctions, in particular against Russian companies and individuals, natural disasters and the uncertainty related to these developments;
- news or analyst reports related to markets or industries in which we operate; and
- general investor perception of investing in Russia.

On August 19, 2015, we received an official notice from the New York Stock Exchange (“NYSE”) stating that the price for Mechel ADSs had fallen below the \$1.00 threshold and we were required to bring our share price and average share price back above one U.S. dollar within six months from the date of receipt of the notice.

In order to regain compliance with the NYSE requirements, we changed the ratio of our ADSs from one ADS per one common share to one ADS per two common shares, which became effective on January 12, 2016. As a result, we received official notice from the NYSE on February 1, 2016 that our ADSs came back into compliance with the listing standards. If our shares or ADSs cease to trade on their respective securities exchanges in the future, including due to non-compliance with applicable listing standards, it may have a material adverse impact on the market price and liquidity of the shares and ADSs.

Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

Because we are a holding company, our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries. Under Russian law, dividends may be declared and paid only out of net profits calculated under the Russian accounting standards and as long as certain conditions have been met, including if the value of the net assets, calculated under the Russian accounting standards, is not less (and would not become less as a result of the proposed dividend payment) than the sum of the charter capital, the reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares. See “Item 10. Additional Information – Charter and Certain Requirements of Russian Legislation – Description of Capital Stock – Dividends.” Currently, some of our subsidiaries do not meet this criteria and cannot approve payment of, or pay dividends. See “– Risks Relating to the Russian Federation – One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.”

Furthermore, the payment of dividends by our subsidiaries and/or our ability to repatriate such dividends may, in certain instances, be subject to taxes, statutory restrictions, retained earnings criteria, and covenants in our subsidiaries’ financing arrangements and are contingent upon the earnings and cash flow of those subsidiaries. See note 23 to the consolidated financial statements. In addition, our loan agreements contain restrictions on the payment of dividends on our common and preferred shares. See “Item 8. Financial Information – Dividend Distribution Policy.”

Some of our shares are represented by ADSs and GDSs, which may impede our ability to implement important business decisions.

Pursuant to applicable Russian law, our depositary may vote the shares underlying our ADSs and GDSs on behalf of their holders if certain information of the ADS and GDS holders (such as the identity of and the corresponding number of shares attributable to each holder, as well as voting instructions) has been disclosed to the depositary in compliance with Russian legal requirements. If the required information is not disclosed to the depositary (e.g., due to multi-layered ADS or GDS ownership chains or otherwise) or if the depositary bank fails to provide such information to us in a prompt manner, ADS and GDS holders may be unable to vote the shares underlying their ADSs and GDSs, accordingly.

If any of these events were to occur, our ADS and GDS holders could be restricted or hindered from voting at Mechel’s shareholder meetings, which could impede our ability to implement business decisions and, in turn, materially and adversely affect our business, financial condition and results of operations.

The depositary may be required to take certain actions due to Russian law requirements which could adversely impact the liquidity and the value of the shares and ADSs.

If at any time the depositary believes that the shares deposited with it against the issuance of ADSs represent (or, upon accepting any additional shares for deposit, would represent) a percentage of shares which exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the depositary may (1) close its books to

deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in the depositary's opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, causing *pro rata* cancellation of ADSs and withdrawal of underlying shares from the depositary receipt program to the extent necessary or desirable to so comply. Any such circumstances may affect the liquidity and the value of the shares and ADSs.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the relevant deposit agreement for the ADSs and relevant requirements of Russian law.

ADS holders have no direct voting rights with respect to the shares represented by the ADSs. They can only exercise voting rights with respect to the shares represented by ADSs in accordance with the provisions of the deposit agreements relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps which are involved. Our charter require us to notify shareholders not less than 30 days prior to the date of any meeting of shareholders and at least 50 days prior to the date of an extraordinary meeting to elect our board of directors. Within specified time limits, a notice of the general shareholders' meeting shall be published on our website www.mechel.ru. It also may be brought to the attention of persons entitled to participate in the general shareholders' meeting and registered in the register of shareholders by other means, including by post or delivery to each of the above persons against signature or via publishing in the newspaper *Rossiyskaya Gazeta*. As an additional way of notification, other mass media (television, radio) can be used. Our common shareholders, as well as our preferred shareholders in cases when they have voting rights, are able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

For ADS holders, in accordance with the deposit agreements, we will provide the notice to the depositary. The depositary has in turn undertaken, as soon as practicable thereafter, to mail to ADS holders notice of any such meeting of shareholders, copies of voting materials (if and as received by the depositary from us) and a statement as to the manner in which instructions may be given by ADS holders. To exercise their voting rights, ADS holders must then timely instruct the depositary how to vote their shares. As a result of this extra procedural step involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of shares. ADSs for which the depositary does not receive timely voting instructions will not be voted at any meeting.

In addition, although securities regulations expressly permit the depositary to split the votes with respect to shares underlying the ADSs in accordance with instructions from ADS holders, there is little court or regulatory guidance on the application of such regulations, and the depositary may choose to refrain from voting at all unless it receives instructions from all ADS holders to vote the shares in the same manner. Holders of ADSs may thus have significant difficulty in exercising voting rights with respect to the shares underlying the ADSs. There can be no assurance that holders and beneficial owners of ADSs will: (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the depositary; (2) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions; or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

ADS holders may be unable to repatriate their earnings.

Dividends that we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles. Such dividends will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the fees and charges of, and expenses incurred by, the depositary, together with taxes withheld and any other governmental charges. The ability to convert rubles into U.S. dollars is subject to the currency markets. Although there is an active market for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the functioning of this market in

the future is not guaranteed and, in particular may be negatively impacted by any future imposition of exchange controls imposed by the Russian authorities in an effort to stabilize the value of the ruble.

ADS holders may not be able to benefit from the United States-Russia income tax treaty.

Under Russian tax legislation, dividends paid to a non-resident holder of shares of a Russian company generally will be subject to a 15% withholding tax. This tax rate may potentially be reduced to 10% or 5% for U.S. holders of the shares that are legal entities and organizations and to 10% for U.S. holders of the shares that are individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the “**United States-Russia income tax treaty**”), provided a number of conditions are satisfied. Pursuant to existing Russian tax legislation, the reduced tax rate of 5% established in accordance with certain provisions of the United States-Russia income tax treaty does not apply on dividend payments under ADSs. The general rate of 10% which is established by the treaty and does not account for benefits applies, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied. Thus, the tax agent may be obliged to withhold tax at higher non-treaty rates when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States-Russia income tax treaty. ADS holders may apply for a refund of a portion of the tax withheld under an applicable tax treaty, however, this process may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund. See “Item 10. Additional Information – Taxation – Russian Income and Withholding Tax Considerations” for additional information.

Capital gains from the sale of ADSs may be subject to withholding tax in Russia.

Under Russian tax legislation, gains realized by foreign organizations from the disposition of Russian shares and securities, as well as financial instruments derived from such shares, with the exception of shares that are traded on an organized securities market, may be subject to withholding tax in Russia if more than 50% of our assets directly or indirectly consist of immovable property located in Russia. Gains arising from the sale on foreign exchanges (foreign market operators) of securities or derivatives circulated on such exchanges are not considered Russian source income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition on foreign stock exchanges of the foregoing types of securities listed on these exchanges are not subject to taxation in Russia.

Gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by U.S. holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income and will not be taxable in Russia. Gains arising from the disposition of the foregoing types of securities and derivatives in Russia by U.S. holders who are individuals not resident in Russia for tax purposes may be subject to personal income tax withheld at source of income in Russia based on an annual tax return, which they may be required to submit with the Russian tax authorities.

Holders of ADSs may have limited recourse against us and our directors and executive officers because most of our operations are conducted outside the United States and all of our directors and executive officers reside outside the United States.

Our presence outside the United States may limit ADS holders’ legal recourse against us. Mechel is incorporated under the laws of the Russian Federation. Our directors and executive officers reside outside the United States, principally in Russia. A substantial portion of our assets and the assets of most of our directors and executive officers are located outside the United States. As a result, holders of our ADSs may be limited in their ability to effect service of process within the United States upon us or our directors and executive officers or to

enforce in a U.S. court a judgment obtained against us or our directors and executive officers in jurisdictions outside the United States, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for holders of ADSs to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to investments in the ADSs. The deposit agreements provide for actions brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, provided that any action under the U.S. federal securities laws or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders.

We may offer additional preferred shares and preferred ADSs in the future, and these and other sales may adversely affect the market price of the preferred shares and preferred ADSs.

As of December 31, 2019, out of the 138,756,915 issued preferred shares, approximately 39.5% are held by our wholly-owned subsidiary Skyblock Limited, the remaining preferred shares are held by the public. It is possible that we may decide to offer additional preferred shares and preferred ADSs through public offering or broker trades in the future, including preferred shares held by Skyblock Limited. Additional offerings or sales of preferred shares and preferred ADSs by us, or the public perception that such offerings or sales may occur, could have an adverse effect on the market price of our preferred shares and preferred ADSs.

Risks Relating to the Russian Federation

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in developed or other emerging markets could have a material adverse effect on our business and could cause the value of our shares and ADSs to fluctuate widely.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that the value of securities of Russian companies is subject to rapid and wide fluctuations due to various factors. The emergence of new tensions between Russia and other countries, sanctions imposed by the Russian Federation on some countries and vice versa may lead to outflow of the investors from the market, as well as rapid, significant sales of Russian assets, which could result in reductions in the price of Russian securities. We cannot assure you that any such developments will not have a material adverse effect on our business, financial condition, results of operations and prospects, and the value of our shares and ADSs is expected to be highly volatile while tension between Russia and other countries remains unresolved and/or the Russian economy continues to deteriorate.

Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set forth in this document may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face liquidity constraints as foreign funding sources become less available. Accordingly, investors should exercise particular care in evaluating the risks

involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability.

Emerging markets such as Russia are subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia, the accession of Crimea to Russia in March 2014, the ongoing crisis in Eastern Ukraine and the subsequent economic sanctions imposed on certain Russian companies and individuals by the United States, the European Union, Canada and other countries resulted in significant overall price declines in the Russian stock exchanges. See “– Risks Relating to the Russian Federation – Sanctions imposed by the United States and the European Union, as well as other politically related disagreements and allegations between Russia and other countries, may have a material adverse effect on our business, liquidity and financial condition, as well as the trading market for and value of our shares and ADSs.” The reaction of those countries, resulting geopolitical tensions and ensuing sanctions programs have had and could continue to have an adverse effect on the Russian economy, accelerating capital outflow from Russia and resulting in foreign exchange rate fluctuations and volatility on the Russian markets. There is no assurance that Russia will not introduce measures to address capital outflow from Russia, including by adopting regulations imposing restrictions on transactions on capital and debt markets or otherwise, any of which could adversely affect investor interest and the Russian economy generally. The emergence or escalation of any tensions in Russia or neighboring regions could negatively affect the economy of Russia and other countries that may be involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity, stability and trading price of our shares and ADSs.

Partly as a result of political tensions, international sanctions, ruble volatility and a drop in oil prices, Standard & Poor’s, Moody’s and Fitch downgraded the credit ratings of the Russian Federation in 2015. The ratings agencies have subsequently upgraded the credit ratings and/or outlooks of the Russian Federation between 2016 and 2019. As of the date hereof, the Russian Federation’s sovereign credit rating was “BBB-” (with a stable outlook) by Standard & Poor’s, “Baa3” (with a stable outlook) by Moody’s and “BBB” (with a stable outlook) by Fitch. However, there can be no assurance that further downgrades of Russia’s sovereign credit rating will not occur.

The risks associated with these events or potential future events could materially and adversely affect the business and investment environment, overall consumer confidence and economy in the Russian Federation, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

Sanctions imposed by the United States and the European Union, as well as other politically related disagreements and allegations between Russia and other countries, may have a material adverse effect on our business, liquidity and financial condition, as well as the trading market for and value of our shares and ADSs.

The United States and the European Union (as well as certain other countries) have imposed sanctions and export control restrictions on certain Russian individuals and entities and taken other actions in response to the ongoing situation in Ukraine and Crimea, alleged Russian cyber-attacks, election interference, activities in Syria and nerve gas incident in the United Kingdom. See “– Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability.” In particular, the United States and the European Union have imposed (i) sanctions that block the property of certain designated businesses, organizations and individuals and restrict travel (“**Blocking Sanctions**”), (ii) sectoral sanctions that prohibit certain types of transactions with companies

operating in the Russian energy, financial and defense sectors, including limitations on provision of debt and/or equity financing (“**Sectoral Sanctions**”), and (iii) territorial sanctions restricting investment in and trade with Crimea which, subject to some exemptions, prohibit virtually all investments into, imports from, and exports to, the territory of Crimea, aiming at severely restraining any U.S. or EU-related business contacts with this territory. The Blocking Sanctions and the Sectoral Sanctions apply to individuals and entities named on the respective sanctions lists as well as to entities that are owned (directly or indirectly) 50% or more, in aggregate, by one or more sanctioned persons and, accordingly, may extend beyond Russia. In addition, on August 2, 2017, the U.S. President signed into law the Countering America’s Adversaries Through Sanctions Act (the “**CAATSA**”) that includes additional sanctions that may be introduced against Russian entities. In August 2018, the U.S. Department of State imposed new sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the “**CBW Act**”).

To date, the Blocking Sanctions have been imposed against prominent Russian politicians, executive branch officials, members of the Russian Parliament, public figures, certain owners of large businesses in Russia, as well as their assets and enterprises, and major defense and other Russian companies. In addition, the United States and the European Union have introduced Sectoral Sanctions against (a) major Russian banks, such as Gazprombank, Vnesheconombank, VTB Bank (PJSC), Russian Agricultural Bank and Sberbank, (b) Transneft, Gazprom Neft, Rosneft and Novatek, and (c) State Corporation Rostec and other military industrial corporations. We have business relations with certain Russian persons and their controlled entities that are identified as targets of U.S. and EU sanctions, including certain of the banks mentioned. We believe that our dealings with such persons do not violate applicable U.S. or EU sanctions programs. However, to the extent that we engage in transactions with any relevant sanctions-designated persons, U.S. sanctions could have potential adverse effects on such transactions. Moreover, we could be limited in sources of financing for such dealings and/or be subject to related scrutiny by relevant authorities.

On August 2, 2019, the U.S. Treasury Department’s Office of Foreign Assets Control (“**OFAC**”) proceeded to issue a directive that prohibited U.S. banks from participating in the primary market for non-Ruble denominated bonds issued by the Russian sovereign and also prohibited U.S. banks from lending non-Ruble denominated funds to the Russian sovereign with effect from August 26, 2019. In December 2019, the U.S. President signed into law a bill passed by the U.S. Congress that provides for the introduction of certain sanctions on persons providing certain assistance in the construction of the Nord Stream 2 pipeline project. It is currently not possible to predict what impact these potential new sanctions or any retaliating measures by the Russian Government may have on the Russian economy or the group’s business.

Several pieces of legislation directed at amplifying U.S. sanctions against the Russian Federation have been introduced in the U.S. Congress and are currently under consideration. The current initiatives, if enacted, could affect, among other things, the Russian sovereign debt, Russian energy projects and the Russian energy and financial sectors. It is currently unclear at which point, if at all, any of these bills could be signed into law and what would be the scope of any new sanctions that may be imposed pursuant to such law.

Although no individual or entity within our group has been designated with U.S. or EU sanctions to date, there can be no assurance that further or more restrictive sanctions and/or export controls will not be introduced by the United States, the European Union or other countries which could affect such persons and increase the adverse effects above.

Furthermore, certain entities within our group are EU persons and are therefore required to comply with the EU sanctions regime, including not conducting business with any sanctioned persons. Most of the group’s entities, however, are neither U.S. persons nor EU persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or EU jurisdiction. However, the United States takes a broad view with respect to its sanctions jurisdiction, and there can be no assurance that compliance issues under applicable U.S. and/or EU sanctions laws and regulations will not arise with respect to us or our personnel. Non-compliance with applicable sanctions could result in, among other things, the inability

of the relevant group entities to contract with U.S. and/or EU governments or their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or EU law, the imposition of significant fines, and negative publicity and reputational damage. In addition, should our dealings with sanctioned counterparties become material, our ability to transact with U.S. or EU persons could be affected.

The sanctions imposed by the United States and the European Union in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which we are exposed significantly, prompting downgrades of the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the United States and certain EU member states, as well as certain EU officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. The imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy. These impacts could be more severe than those experienced to date.

Although the group has no reason to believe that it or its shareholders may be specifically targeted by the U.S. or EU sanctions, there can be no assurance that this will not occur. If the U.S. or EU sanctions targeting the Russian metals and mining sector and/or the group and its shareholders are imposed, such sanctions will likely have a material adverse impact on the group in a number of ways. For example, we might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions, transact in U.S. dollars, raise funds from investors, or access international capital markets generally and/or our existing funds might be blocked. Furthermore, relevant clearing systems, brokers and other market participants, as well as the NYSE, may refuse to permit trading in or otherwise facilitate transfers of the ADSs. Furthermore, investors in our shares or ADSs may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to our shares or ADSs, either because the investor or (in the case of ADSs) the depository is subject to the jurisdiction of an applicable sanctions regime, which could make such shares or ADSs partially or completely illiquid and have a material adverse effect on their market value. Any of the aforementioned could reduce the trading market for the ADSs or may otherwise materially impact the value of the ADSs.

Economic risks

Economic instability in Russia could adversely affect our business and the value of our shares and ADSs.

The Russian economy has been subject to abrupt downturns in the past. However, since 2000, it experienced positive trends, such as annual increases in the gross domestic product (“GDP”), a relatively stable ruble, strong domestic demand, rising real wages and reduced rates of inflation. Nevertheless, the positive trends were interrupted by the global financial crisis in late 2008, which led to a substantial decrease in the growth rate of GDP, ruble depreciation and a decline in domestic demand. The Russian government took certain anti-crisis measures using the “stabilization fund” and hard currency reserves in order to soften the impact of the economic crisis on the Russian economy and support the value of the ruble. The emerging market economies, including Russia, began to experience a new economic slowdown in 2013, which together with political and other disturbances in emerging markets have introduced additional uncertainty in the overall outlook for growth of the global economy. According to Rosstat, the Russian economy stabilized and recorded GDP growth of 1.8% in 2017, 2.5% in 2018 and 1.3% in 2019. The deterioration of the Russian economy in prior years resulted from an array of factors, including negative investor sentiment arising from the disturbances in Eastern Ukraine, international sanctions imposed on Russian companies and individuals, substantial depreciation of the ruble against major world currencies and the precipitous drop in oil prices. See “– Risks Relating to the Russian Federation – Sanctions imposed by the United States and the European Union, as well as other politically related disagreements and allegations between Russia and other countries, may have a material adverse effect on our business, liquidity and financial condition, as well as the trading market for and value of our shares and ADSs.” Any economic instability in Russia could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

The Russian banking system is still developing, and another banking crisis or international sanctions could place severe liquidity constraints on our business.

A substantial portion of our loans are from Russian banks, including state-owned banks such as VTB Bank and Gazprombank, who in recent years have extended the maturity of our loans, waived breaches of financial covenants and reset our financial covenants to give us more flexibility to operate our business. Such banks may not exhibit the same degree of flexibility with respect to our financings as they have in the past due to the imposition of international sanctions against them. Moreover, we rely on the Russian banking system to complete various day-to-day fund transfers and other actions required to conduct our business with customers, suppliers, lenders and other counterparties.

Despite progress achieved in recent years, the Russian banking system suffers from international sanctions imposed against state-owned banks, weak depositor confidence, high concentration of exposure to certain borrowers and their affiliates, poor credit quality of borrowers and related party transactions. Specifically, sanctions have been imposed by a number of countries against certain Russian banks, financial institutions and companies, as well as certain Russian individuals who hold interests or positions in such banks, financial institutions and companies. Among other measures, the United States and the European Union have imposed Sectoral Sanctions on certain major Russian financial institutions. It is difficult to predict the impact of sanctions on the Russian banking sector as this may continue to evolve over time and whether such sanctions will be expanded in the future; however, there is a risk that Russian banks could be unable to refinance their existing debt or that such refinancing may become more expensive, and/or that Russian banks could be unable to issue loans in amounts necessary for borrowers, and/or that the cost of borrowing could increase significantly for borrowers.

In response to ruble depreciation and decline in Russian economy, the CBR progressively increased its key rate in 2014 from 5.5% to 17%, which resulted in substantial volatility and liquidity shortages on the domestic financial and interbank market. The CBR gradually reduced the key rate to 7.25% between 2015 and early 2018 and introduced other measures aimed at supporting Russian banking system, before increasing the key rate to 7.75% in late 2018 to mitigate the risk of inflation. During 2019, the key rate was gradually lowered to 6.25% and in February 2020 further lowered to 6.0%. Although these measures resulted in partial stabilization of the banking system and assisted some Russian banks in withstanding the recent volatility on the currency and financial markets, the Russian banking system continues to experience financial difficulties and could continue to worsen in the near future due to the impact of international sanctions and general instability of global and Russian economy and domestic financial market. Certain Russian banks have in the past experienced difficulties that have caused them to become insolvent and have their licenses revoked, such as Yugra Bank, or to recognize large loan loss provisions that required steps to replenish their capital, as in the cases of the Promsvyazbank, Bin Bank and Otkritie Bank.

A banking or liquidity crisis or the bankruptcy or insolvency of the banks which lend to us or which we use for banking transactions could have a material adverse effect on our business, results of operations, financial condition and prospects.

Russia's physical infrastructure is not as well developed or maintained as the infrastructure in more developed countries, which could disrupt normal business activity.

Russia's physical infrastructure is not as well developed or maintained as the infrastructure in more developed countries. Such physical infrastructure includes the road networks, railroad system, power generation and transmission systems, communication systems and building stock. The Russian government has implemented in the past, and may further implement, infrastructure improvements and reorganizations of the nation's rail, road and power systems. These reorganizations may result in increased charges and tariffs and may not generate sufficient capital investment to repair, maintain and improve these systems. A prolonged or major disruption in normal business activity due to a deterioration of Russia's infrastructure, especially as it relates to transportation,

and significant increases in charges and tariffs, could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and may interrupt business operations in Russia, any or all of these factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

The Russian economy and the value of our shares and ADSs could be materially adversely affected by fluctuations in the global economy.

The global economic crisis, social and political instability in some Middle Eastern countries and in Ukraine, the Chinese economic slowdown followed by the Chinese market's crash and decline in demand, as well as the dramatic fall in oil prices and other negative developments in various countries have resulted in increased volatility in the capital markets in many countries, including Russia. As has happened in the past, financial problems in emerging market economies or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. In addition, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market, and a decline in the price of oil or international sanctions against the Russian oil industry could slow or disrupt the Russian economy or weaken the value of the ruble against foreign currencies. In particular, the Brent Crude oil price suffered a significant decrease during 2014 and 2015. The commodity's price declined from \$112.36 per barrel on June 30, 2014 to \$37.28 per barrel on December 31, 2015. During 2016 and 2019, the Brent Crude oil price continued to be volatile with \$56.82 per barrel on December 30, 2016, \$66.87 per barrel on December 29, 2017, \$53.80 per barrel on December 31, 2018 and \$66.00 per barrel on December 31, 2019. Further, after OPEC and Russia failed to agree recent production cuts, Saudi Arabia sharply cut its prices, causing the Brent Crude oil price to reach a low of \$24.88 per barrel on March 18, 2020. Russia is also one of the world's largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of international sanctions, tariffs and/or antidumping measures by any of its principal export markets.

As many of the factors that affect the Russian and global economies affect our business and the business of many of our domestic and international customers, our business could be materially adversely affected by a downturn in the Russian economy or the global economy. In addition to a reduction in demand for our products, we may experience increases in overdue accounts receivable from our customers, some of whom may face liquidity problems and potential bankruptcy. Our suppliers may raise their prices, eliminate or reduce trade financing or reduce their output. A decline in product demand, a decrease in collectability of accounts receivable or substantial changes in the terms of our suppliers' pricing policies or financing terms, or the potential bankruptcy of our customers or contract counterparties may have a material adverse effect on our business, financial condition, results of operations and prospects.

Following a national referendum and enactment of legislation by the government of the United Kingdom, the United Kingdom formally withdrew from the European Union on January 31, 2020 and entered into a transition period during which it will continue its ongoing and complex negotiations with the European Union relating to the future trading relationship between the parties. Significant political and economic uncertainty remains about whether the terms of the relationship will differ materially from the terms before withdrawal, as well as about the possibility that a so-called "no deal" separation will occur if negotiations are not completed by the end of the transition period.

With respect to the United States, the presidential administration of Donald Trump has led to greater uncertainty on the status of trade relations between the United States and some of its largest trade partners, including the United States' existing trade agreements, and impacted financial markets.

In addition, the Chinese government's unpredictable regulation of coal imports, including the implementation of stringent port restrictions, the rise of import duties and the setting of import quotas, may adversely impact our results of operations. For example, the Chinese government imposed a strict quota on 2019 coal imports in order to keep total coal import volumes at a level of 2018. As a result, coal imports into China in December 2019 declined by 72.9% year-on-year (however, total 2019 coal imports into China increased by 6.3%

compared to 2018), according to the General Administration of Customs of China. According to industry analyst, CRU, China is using such import controls primarily as a policy instrument to maintain the price and profitability of domestic coal. Relatedly, CRU anticipates that the Chinese government will continue to closely monitor imports and will implement restrictions as needed through the year in order to keep domestic prices within the acceptable range.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. In addition, any force majeure events, including the occurrence of natural disasters or outbreaks of contagious diseases, such as the recent outbreak of the 2019 novel coronavirus (Covid-19), could affect the volume of international business activity and trade, resulting in a decreased demand for oil and other commodities, which may impact the macroeconomic environment globally. The novel coronavirus (Covid-19), which on March 11, 2020 was declared by the World Health Organization to be a global pandemic, has begun to have numerous effects on the global economy. A global or regional health pandemic could adversely affect the economies and financial markets of many countries resulting in an economic downturn that could negatively affect our operating results. The extent to which the coronavirus may impact our results will depend on future developments and is difficult to predict. Any of these factors could depress economic activity and commodities markets, as well as restrict access to capital, which could result in the deterioration of global economic conditions.

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the net assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an annual basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. See note 17 to the consolidated financial statements.

Political and social risks

Political and governmental instability could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Tensions in Russia's relations with other countries and world bodies or any change in the Russian Government or its programs or lack of consensus between the Russian President, the Prime Minister, the Russian Government, the Parliament and powerful political, social, religious, regional, economic or ethnic groups, as well as the continuation of and the development of international sanctions imposed on Russian institutions, organizations and individuals could disrupt or reverse political, economic and regulatory reforms and also lead to restrictions on our business and a negative impact on Russia's economy and investment climate.

In January 2020, the Russian President Vladimir Putin proposed a number of constitutional reforms aimed at altering the balance of power between the legislative, executive and judicial branches and introducing certain other changes to the Constitution of the Russian Federation. It is expected that the process by which these reforms will be prepared and approved by the Russian authorities and/or the Russian population will be determined in the near future. If and when implemented, these constitutional reforms may have a significant impact on the Russian political landscape and regulatory environment and lead to other changes that are currently difficult to predict.

Any disruption or reversal of reform policies or economic downturn could lead to social, political or governmental instability or the occurrence of conflicts between various groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Corruption and negative publicity could negatively impact our business and the value of our shares and ADSs.

The local press and international press have reported high levels of corruption in Russia, including unlawful demands by government officials and the bribery of government officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. In addition, there are reports of the Russian media publishing disparaging articles in return for payment. From time to time, we are the subject of press reports that we believe contain false information about our business and financial condition, as well as our largest shareholder. If we or our managers, largest shareholder or counterparties are accused of involvement in government corruption or are otherwise the subject of libelous reports in the press, the resulting negative publicity could disrupt our ability to conduct our business and impair our relationships with customers, suppliers, creditors and other parties, which could have a material adverse effect on our business, financial condition and results of operations and the value of our shares and ADSs.

Shortage of skilled Russian labor could materially adversely affect our business, financial condition, results of operations and prospects.

Currently the Russian labor market suffers from a general shortage of skilled and trained workers, and we compete with other Russian companies to hire and retain such workers. In Russia, the working age population has declined due to a relatively low birth rate from the end of the 1980s through the early 1990s. As of January 1, 2020, Rosstat estimated Russia's population at 146.8 million, a decline of 1.7 million from 1992. In recent years, declines in population levels slowed down as a result of an increase in migration and a reduction in the natural decline of the population; in 2014-2017, the population level increased. However, the birth rate remains relatively low, which together with the aging and high mortality of the population, are the main challenges for Russia's demographic development. According to World Bank, Russia's working age population is predicted to decline by an estimated 11 million by 2030. In this context, Russia has recently increased the working age for both men and women. A shortage of skilled Russian labor combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

Legal risks and uncertainties

Weaknesses relating to the Russian legal system and legislation create an uncertain investment climate.

Russia is still developing the legal framework required to support a market economy. The following weaknesses relating to the Russian legal system create an uncertain investment climate and result in risks with respect to our legal and business decisions:

- inconsistencies among federal laws, including among decrees, orders and regulations issued by the Russian President, the Russian government, federal ministries and regulatory authorities and among regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- gaps in the regulatory structure due to the delay or absence of implementing legislation;
- uncertainties in interpretation of Russian legislation and corporate law generally by Russian courts;
- a high degree of discretion or arbitrariness on the part of governmental authorities; and
- still-developing bankruptcy procedures that are subject to abuse. See “– Risks Relating to Our Financial Condition and Financial Reporting – We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover some or all of their investments.”

All of these weaknesses could affect our ability to protect our rights under our licenses and under our contracts, or to defend ourselves against claims by others. We make no assurances that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, under Russian corporate law, if a Russian company's net assets calculated on the basis of the Russian accounting standards at the end of its third or any subsequent financial year, fall below its share capital, the company must decrease its share capital to the level of its net assets value or initiate a voluntary liquidation. In addition, if a Russian company's net assets calculated on the basis of the Russian accounting standards at the end of its second or any subsequent financial year, fall below the minimum share capital required by law, the company must initiate voluntary liquidation not later than six months after the end of such financial year. If the company fails to comply with either of the requirements stated above within the prescribed time limits, the company's creditors may accelerate their claims and demand reimbursement of applicable damages, and governmental authorities may seek involuntary liquidation of the company. Currently, we have the following significant subsidiaries with negative net assets in accordance with the Russian accounting standards: Mechel-Steel Management, Kaslinsky Architectural Art Casting Plant, Port Kambarka, Metallurgshakhtspetsstroy, Southern Kuzbass Coal Company, Mechel Mining Management, Shakhtspetsstroy, Mechel-Remservice, Maritime Cargo Shipping, Mecheltrans Management, MecheltransVostok, Izhstal, Mecheltrans Auto, Vyartsilya Metal Products Plant, Southern Kuzbass Power Plant and Yakutugol.

If involuntary liquidation were to occur, then we may be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition, results of operations and prospects.

Selective government action could have a material adverse effect on the investment climate in Russia and on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Governmental authorities in Russia have a high degree of discretion. Press reports have cited instances of Russian companies and their major shareholders being subjected to government pressure through prosecutions of violations of regulations and legislation which are either politically motivated or triggered by competing business groups.

In mid-2008, Mechel came under public criticism by the Russian government with repeated statements accusing Mechel of using tax avoidance schemes and other improprieties. Ultimately the allegations regarding tax avoidance were not confirmed by the tax authorities, but the antimonopoly investigation resulted in the imposition of a fine and the issuance of a FAS directive regarding our business practices. See "— Risks Relating to Our Business and Industry — Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices."

Selective government action, if directed at us or our largest shareholder, could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Due to still-developing law and practice related to minority shareholder protection in Russia, the ability of holders of our shares and ADSs to bring, or recover in, an action against us may be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate

in voting on certain types of actions. Russian law does not expressly require obtaining prior consent for interested party transactions, unless persons specified by the law do not require it. See “Item 10. Additional Information – Description of Capital Stock – Rights attaching to common shares.” Disclosure and reporting requirements have also been enacted in Russia. Concepts similar to the fiduciary duties of directors and officers to their companies and shareholders are also expected to be further developed in Russian legislation; for example, amendments to the Russian Code of Administrative Offenses imposing administrative liability on members of a company’s board of directors or management board for violations committed in the maintenance of shareholder registers and the convening of general shareholders’ meetings. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, the enforcement of these and other protections has not been effective.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a general shareholders’ meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a general shareholders’ meeting, they are in a position to approve amendments to a company’s charter, reorganizations, significant sales of assets and other major transactions, which could be prejudicial to the interests of minority shareholders. See “– Risks Relating to Our Business and Industry – The concentration of our shares with our largest shareholders will limit your ability to influence corporate matters and transactions with largest shareholders may present conflicts of interest, potentially resulting in the entering into transactions on less favorable terms than could be obtained on arm’s length basis.”

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an “effective parent.” The entity whose decisions are capable of being so determined is deemed an “effective subsidiary.” Under the Joint-Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such entities; and
- the effective parent gives obligatory directions to the effective subsidiary based on the above-mentioned decision-making capability.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt due to the fault of an effective parent resulting from its action or inaction. This is the case no matter how the effective parent’s ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. Other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, financial condition, results of operations and prospects.

Shareholder rights provisions under Russian law could result in significant additional obligations on us.

As a general rule, Russian law provides that shareholders that vote against or do not participate in voting on certain matters have the right to request that the company redeem their shares at value determined in accordance with Russian law. The decisions of a general shareholders' meeting that trigger this right include:

- decisions with respect to a reorganization;
- consent or subsequent approval by shareholders of a "major transaction," which involves property in excess of 50% of the balance sheet value of the company's assets calculated according to the Russian accounting standards, regardless of whether the transaction is actually consummated (including those which are simultaneously interested party transactions), except for transactions undertaken in the ordinary course of business;
- the amendment of the company's charter or approval of a new version of the company's charter that limits shareholder rights; and
- the amendment of the public company's charter which eliminates indication that the company is public, simultaneously with the decision on applying to the CBR on release from obligation to disclose information under the laws of the Russian Federation on securities and the decision on applying for delisting of shares and securities convertible into shares.

Our and our Russian subsidiaries' obligation to purchase shares in these circumstances, which is limited to 10% of our or the subsidiary's net assets, respectively, calculated in accordance with the Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects due to the need to expend cash on such obligatory share purchases.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares and ADSs.

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no single central registration system in Russia. Share registers can be maintained only by licensed registrars located throughout Russia. Regulations have been adopted regarding the licensing conditions for such registrars, as well as the procedures to be followed by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Furthermore, the depository, under the terms of the deposit agreements governing record keeping and custody of our ADSs, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Item 10. Additional Information – Description of Capital Stock – Registration and transfer of shares."

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Generally, Russian companies are subject to numerous taxes. These taxes include, among others:

- income tax;
- value-added tax ("VAT");

- mineral extraction tax; and
- property and land taxes.

Laws related to these taxes have been in force for a short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation, as amended (the “**Russian Tax Code**”), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as the corporate income tax, VAT and property tax with new chapters of the Russian Tax Code.

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. Contradictory interpretations of tax regulations exist within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations and documentation such as customs declarations, are subject to review and investigation by relevant authorities, which may impose severe fines, penalties and interest charges. Generally, in a tax audit, taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to re-audit taxpayers which were audited by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. As a result of the fact that none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “hindered” a tax audit and ultimately seek back taxes and penalties beyond the three year term. In some instances, new tax regulations have been given retroactive effect.

In November 2014, Russian legislation was significantly revised in order to prevent the misuse of low-tax jurisdictions for tax evasion in the Russian Federation. Changes in the legislation set out the rules for the taxation of income of a foreign organization recognized as a controlled foreign company. Such foreign organization is recognized as a controlled foreign company if it is not a tax resident of the Russian Federation, and the participation interest of the controlling Russian legal entities or individuals in the organization is more than 25% (in some cases, more than 10%). Starting with the calculation of the profits of controlled foreign companies for 2017 and thereafter, profits in the amount of not more than RUB 10 million are not subject to income tax. Russian tax law also provides for certain conditions under which the income of controlled companies qualifies as tax exempt. The taxable income of the controlling party is increased by the profits of the controlled foreign company earned in the financial year ended prior to the reporting year. In addition, Russian companies are required to disclose information about controlled foreign companies to the Russian tax authorities. All of these measures are intended to ensure the transparency of economic transactions, including foreign trade transactions. Disclosure of beneficial ownership, beneficial recipients of income and tax residence of legal entities at their actual place of business is, according to the new legislation, a prerequisite for the application of tax preferences, including reduced tax rates under international double tax treaties. In July 2015, the Convention on Mutual Administrative Assistance in Tax Matters became effective. The Convention provides for the potential exchange of tax information, including simultaneous tax inspections with Member States of the Council of Europe and member countries of the Organization for Economic Co-operation and Development (“**OECD**”), which signed the convention, as well as for assistance in the collection of taxes on their territories. Furthermore, starting from June 30, 2014, the Federal Law No. 173-FZ entered into force, which regulates the procedure of interaction of financial market entities with foreign tax authorities, primarily within the bounds of the U.S. law Foreign Account Tax Compliance Act (“**FATCA**”).

On November 16, 2011, the Russian President signed the Law on Amendment of Part One and Part Two of the Tax Code of the Russian Federation in Connection with the Formation of a Consolidated Group of Taxpayers. The main provisions of the law came into force on January 1, 2012. The law provides for formation of a consolidated group of taxpayers for the purposes of income tax calculation and payment on the basis of the combined business performance of the members of such group. However, the law sets forth a number of requirements for the formation of a consolidated group of taxpayers. Starting from 2013, 16 companies of our group have formed a consolidated group of taxpayers, with Mechel being a responsible party. The formation of the consolidated group of taxpayers allowed us to determine the taxable income with profit and loss offset of all the companies included in the consolidated group of taxpayers and to pay income tax from total aggregate income under the consolidated group of taxpayers, starting from January 1, 2013. In 2014, there have been some changes in the composition of the consolidated group of taxpayers as a result the number of members has increased to 20 companies. Under current Russian tax legislation, the consolidated tax base does not include any profit received from controlled foreign companies by a member of the consolidated group of taxpayers (such member being the controlling entity of such controlled foreign companies and the responsible party for paying income tax in respect of the profits of controlled foreign companies irrespective of the income tax of the consolidated group of taxpayers).

However, regardless of being a member of the consolidated group of taxpayers or not, Mechel and our Russian subsidiaries pay Russian taxes on dividends they receive from other companies in our group. The tax rate on dividend income amounts to 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules) if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties) if being distributed to foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 13%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized by the tax agent if taxes were withheld by the tax agent under foreign tax law or an international tax agreement.

In 2017, due to changes in Russian tax legislation, the order of set-off of tax loss accumulated by Russian companies, including companies within the consolidated group of taxpayers significantly changed. Such changes have led to an increase in the Mechel's tax burden. During the period from 2017 to 2021, the amount of recognized loss for previous tax periods cannot exceed 50% of the tax base of the current period. It is possible that this limitation will continue to apply further, which will not allow recognizing accumulated losses in full. At the same time, the previously existing 10-year limit on the transfer of losses was cancelled.

The limitation in the amount of recognized loss is also applied to the members of the consolidated group of taxpayers with respect to current year loss of its members. Such limitation equals to 50% of the consolidated tax base of the consolidated group of taxpayers for the current reporting (tax) period. In respect of losses incurred in previous tax periods (before January 1, 2017), the consolidated tax base of the current tax period may be reduced by the amount of such losses, but also by no more than 50%. These changes in accounting the loss of the consolidated group of taxpayers have increased the tax burden on companies included in the consolidated group of taxpayers.

In 2018, Russian tax law introduced an indefinite ban on the registration by the tax authorities of agreements on the formation of a consolidated group of taxpayers, the extension of their validity and the introduction of changes related to the accession of new members or withdrawal from the consolidated group of taxpayers, unless such member ceases to comply with tax legislation requirements. In addition, January 1, 2023 is the expiration date of all agreements on the formation of a consolidated group of taxpayers.

In addition, application of current Russian thin capitalization rules and the developing negative court practice on such disputes, especially at the level of the Presidium of the Supreme Court of the Russian

Federation, may require us to withhold dividend taxes in Russia upon payment of interest on loans. In particular, taking into account the requirements of Russian law and negative court practice on thin capitalization, part of the interest on borrowings of our subsidiaries which are either received from Mechel or received from independent banks and guaranteed by Mechel may be classified as dividends and may not be treated as expenses for tax purposes under certain conditions provided by thin capitalization rules. In February 2016, a law which significantly changes the current approach to thin capitalization rules application was adopted. We believe that thin capitalization rules are not applicable to Mechel's loans starting from May 2016. However, there can be no assurance that in case of a change of the existing thin capitalization rules and the applicable practice, we will not be subject to the risks specified above.

In accordance with amendments to the Russian Tax Code which entered into force on November 30, 2016, the tax authorities are entitled to seek in court payment of taxes by the company's dependent persons, including dependent individuals, for example, the owners, founders or shareholders of such company, if these persons received cash or property from the company which has outstanding tax amounts within the amounts received by them. Taking into account the requirements of Russian law and negative court practice at the level of the Constitutional Court of the Russian Federation, there can be no assurance that we will not be subject to the risks specified above.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also "– Risks Relating to the Russian Federation – Legal risks and uncertainties – Selective government action could have a material adverse effect on the investment climate in Russia and on our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

Ability to fully utilize our recognized deferred tax assets within the consolidated group of taxpayers depends on the group's profitability and future cash flows.

As of December 31, 2019, we had RUB 3,648 million recorded as deferred tax assets on the consolidated statement of financial position primarily due to the expectation of future profits of the consolidated group of taxpayers. The deferred tax assets can be utilized only if, and only to the extent that, we generate adequate levels of taxable income in future periods to offset the tax loss carry forwards and reverse the temporary differences prior to expiration.

Our management estimates future taxable income in accordance with the tax laws applicable to the consolidated group of taxpayers. In addition, assumptions regarding the future recoverability of deferred tax assets depend on general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If the consolidated group of taxpayers generate lower taxable income than the amount we have assumed in determining our deferred tax assets, or the tax authorities impose significant additional tax assessments as a result of changes in income tax regulations and we are unable to successfully challenge them in court or make adjustments provided by these regulations, the value of deferred tax assets will be reduced, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Differences in interpretation of transfer pricing rules in the jurisdictions in which we operate, as well as the lack of developed law enforcement practice with regard to the Russian transfer pricing rules expose our business to the risk of significant additional liabilities.

Transfer pricing rules control related party transactions pricing. The fundamental principle of the rules is the 'arm's length' principle, according to which organizations must enter into transactions with related parties on the same terms as they would enter into transactions with independent parties. Transfer pricing rules introduce specific pricing methods, and documentation requirements for proving market prices.

Transfer pricing rules apply in most countries in which we operate. Many countries participating in the OECD employ a unified approach to transfer pricing, however in certain jurisdictions, including Russia, where transfer pricing rules have been in force since 2012, the rules have some specifics. As such, the tax authorities of different countries can take advantage of the ambiguous interpretation of transfer pricing rules which can lead to claims on their part or additional tax inspections.

In Russia, established practice in applying the rules has only started to develop and in some cases decisions are being pronounced not in favor of taxpayers, therefore we cannot predict what effect the transfer pricing rules will have on our business. If the tax authorities of Russia or other countries impose significant additional tax assessments as a result of changes in transfer pricing regulation and we are unable to successfully challenge them in court or make adjustments provided by these rules, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

In many OECD countries, there is a legislatively established procedure for the application of mutual agreement procedures with tax authorities of foreign countries, which are aimed at eliminating different interpretations of transfer pricing rules and double taxation of parties of transactions. Under Russian law, the regulations related to mutual agreement procedures begin to apply only since January 1, 2020. Consequently, Russian companies will not be able to make adjustments, in case of additional accruals of income/reduction of expenses to foreign counterparties, on transactions entered into before January 1, 2020.

In 2015, OECD issued Guidance on the Implementation of Transfer Pricing Documentation and Country-by-Country Reporting, which recommended the introduction of a three-tiered reporting system for multinational enterprise groups, consisting of a Master File, a Local File and a Country-by-Country Report ("**CbC Report**"). These reporting requirements were incorporated into the legislation of many countries of our presence and apply to all periods starting from 2017.

The group's CbC Report is prepared by Mechel with submission to the competent authorities in the Russian Federation. In accordance with international treaties, the automatic exchange of CbC reports exists between the countries participating in the automatic exchange. The lack of clarifications on further use of the data provided in the CbC Report may lead to additional tax inspections being initiated, the results of which could have a material adverse effect on our business.

Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments.

Our group is subject to limitations imposed by Russian legislation that restricts the rights of foreign entities to invest in certain Russian companies and in the subsoil sector under the Strategic Investment Laws of the Russian Federation, including the Federal Law "On the Procedure for Foreign Investment in Companies with Strategic Impact on the National Defense and Security of the Russian Federation" (the "**Strategic Industries Law**"). As at the date hereof, our subsidiaries Southern Urals Nickel Plant, which holds the subsoil license on land plots with nickel and cobalt ore deposits, Urals Stampings Plant and Port Posiet which are included in the register of natural monopolies and our subsidiaries Yakutugol, Vzryvprom and Korshunov Mining Plant which hold licenses to carry out activities related to the handling of industrial explosives are considered Strategic Companies.

Therefore, any transfer, directly or indirectly, to a foreign investor or its group of entities (except for the transfer to a foreign investor controlled by the Russian Federation, the constituent entity of the Russian Federation and/or Russian nationals provided such Russian nationals are Russian tax residents and do not have other nationality) of a stake or certain rights in or fixed assets (equal to 25% or more of the balance sheet value of the relevant entity) of Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant, Urals Stampings Plant and Port Posiet, which, according to the Strategic Industries Law, is deemed to transfer control, as described in "Item 4. Information on the Company – Regulatory Matters – The Strategic Industries Law," will be subject to prior approval from the state authorities.