MECHEL

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2015

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Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
Mechel PAO

We have audited the accompanying consolidated statements of financial position of Mechel PAO, a public joint stock company, and subsidiaries (hereinafter referred to as the "Group") as of December 31, 2015 and 2014, and as of January 1, 2014, and the related consolidated statements of profit (loss) and other comprehensive income (loss), changes in equity, and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014, and as of January 1, 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 4 to the financial statements, the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks. These conditions raise substantial doubt about the Group's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4.
The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 13, 2016 expressed an adverse opinion thereon.

Ernst & Young LLC

May 13, 2016

MECHEL PAO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2015

(All amounts are in millions of Russian rubles)

	Notes	December 31, 2015	December 31, 2014	January 1, 2014
Assets				
Current assets				
Cash and cash equivalents	12	3,079	3,983	8,979
Trade and other receivables	13	15,981	19,809	22,477
Due from related parties, net of allowance	14	96	138	196
Inventories	15	35,189	36,337	46,629
Income tax receivables		603	578	2,936
Other current financial assets		45	186	360
Other current assets	16	8,127	8,750	7,225
Total current assets		**63,120**	**69,781**	**88,802**
Assets of disposal group classified as held for sale	17	–	8,696	–
Non-current assets				
Property, plant and equipment	18, 19	215,844	224,299	226,253
Mineral licenses	20	38,517	40,122	51,727
Non-current financial assets		194	489	543
Investments in associates	8	284	274	251
Deferred tax assets	21	1,492	1,438	517
Goodwill	20	21,378	22,697	22,520
Other non-current assets	16	1,243	1,462	2,481
Total non-current assets		**278,952**	**290,781**	**304,292**
Total assets		**342,072**	**369,258**	**393,094**
Equity and liabilities				
Current liabilities				
Interest-bearing loans and borrowings, including Interest payable, fines and penalties on overdue amounts of RUB 47,475 million, RUB 14,615 million and RUB 2,052 million as of December 31, 2015, 2014 and January 1, 2014	11.1	491,674	386,518	267,078
Trade and other payables	22	54,524	61,493	51,973
Advances received		3,492	4,286	4,290
Due to related parties	14	78	44	1,024
Provisions	23	2,532	2,130	1,531
Pension obligations	24	1,120	1,072	877
Finance lease liabilities	29	13,507	15,213	10,809
Income tax payable		5,549	3,033	3,173
Tax payable other than income tax	25	8,034	9,647	7,440
Other current liabilities		26	36	29
Total current liabilities		**580,536**	**483,472**	**348,224**
Liabilities of disposal group classified as held for sale	17	–	8,607	–
Non-current liabilities				
Interest-bearing loans and borrowings	11.1	4,308	9,346	25,251
Provisions	23	3,439	2,998	4,303
Pension obligations	24	3,746	3,445	4,903
Finance lease liabilities	29	481	146	2,973
Deferred tax liabilities	21	11,090	3,053	17,475
Other non-current liabilities		189	1,157	3,453
Income tax payable		137	3,447	–
Total non-current liabilities		**23,390**	**23,592**	**58,358**
Total liabilities		**603,926**	**515,671**	**406,582**
Equity				
Common shares	26	4,163	4,163	4,163
Preferred shares	26	833	833	833
Additional paid-in capital	26	28,322	25,592	25,591
Accumulated other comprehensive income (loss)		445	1,018	(11)
Accumulated deficit		(301,565)	(186,272)	(53,564)
Equity attributable to equity shareholders of Mechel PAO		**(267,802)**	**(154,666)**	**(22,988)**
Non-controlling interests	6, 7	5,948	8,253	9,500
Total equity		**(261,854)**	**(146,413)**	**(13,488)**
Total equity and liabilities		**342,072**	**369,258**	**393,094**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)
for the year ended December 31, 2015

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

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Continuing operations			
Revenue	28	253,141	243,992
Cost of goods sold		(151,334)	(153,057)
Gross profit	28	**101,807**	**90,935**
Selling and distribution expenses		(51,117)	(55,661)
Loss on write-off of property, plant and equipment		(691)	(661)
Impairment of goodwill and other non-current assets	19	(1,460)	(7,996)
Allowance for doubtful accounts	13	(1,464)	(3,671)
Taxes other than income taxes		(5,853)	(6,469)
Allowance for amounts due from related parties	14	(43)	(126)
Administrative and other operating expenses	27.1	(17,300)	(16,315)
Other operating income	27.3	189	851
Total selling, distribution and operating expenses, net		**(77,739)**	**(90,048)**
Operating profit		**24,068**	**887**
Finance income	27.4	183	107
Finance costs	27.5	(60,452)	(28,110)
Foreign exchange gain (loss), net		(71,106)	(103,176)
Share of profit of associates	8	–	7
Other income	27.6	526	684
Other expenses	27.6	(347)	(1,486)
Total other income and (expense), net		**(131,196)**	**(131,974)**
Loss before tax from continuing operations		**(107,128)**	**(131,087)**
Income tax (expense) benefit	21	(8,322)	8,822
Loss for the year from continuing operations		**(115,450)**	**(122,265)**
Discontinued operations			
Profit (loss) after tax for the year from discontinued operations, net	17	822	(11,702)
Loss for the year		**(114,628)**	**(133,967)**
Attributable to:			
Equity holders of the parent		(115,163)	(132,704)
Non-controlling interests		535	(1,263)

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) (continued)
for the year ended December 31, 2015
(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of income tax:		*295*	*1,170*
Exchange differences on translation of foreign operations		287	1,168
Net gain on available for sale financial assets		8	2
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods, net of income tax:		*(194)*	*(127)*
Re-measurement losses on defined benefit plans	24	(194)	(127)
Other comprehensive income for the year, net of tax		**101**	**1,043**
Total comprehensive loss for the year, net of tax		**(114,527)**	**(132,924)**
Attributable to:			
Equity holders of the parent		(115,064)	(131,675)
Non-controlling interests		537	(1,249)
Earnings (loss) per share			
Weighted average number of common shares	26	416,270,745	416,270,745
Basic and diluted, loss for the year attributable to ordinary equity holders of the parent	26	(276.65)	(318.79)
Loss per share from continuing operations (Russian rubles per share) basic and diluted	26	(278.44)	(289.96)
Earnings (loss) per share from discontinued operations (Russian rubles per share)	26	1.79	(28.83)

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2015

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

	Notes	Attributable to equity holders of the parent									
		Common shares		Preferred shares							
		Shares Quantity	Amount	Shares Quantity	Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Equity attributable to shareholders of Mechel PAO	Non-controlling interest	Total equity
As of January 1, 2014		**416,270,745**	**4,163**	**83,254,149**	**833**	**25,591**	**(53,564)**	**(11)**	**(22,988)**	**9,500**	**(13,488)**
Loss for the period		–	–	–	–	–	(132,704)	–	**(132,704)**	(1,263)	**(133,967)**
Other comprehensive income (loss)											
Net gain on available for sale financial assets		–	–	–	–	–	–	2	**2**	–	**2**
Re-measurement losses on defined benefit plans	24	–	–	–	–	–	–	(141)	**(141)**	14	**(127)**
Exchange differences on translation of foreign operations		–	–	–	–	–	–	1,168	**1,168**	–	**1,168**
Total comprehensive (loss) income		**–**	**–**	**–**	**–**	**–**	**(132,704)**	**1,029**	**(131,675)**	**(1,249)**	**(132,924)**
Dividends declared to shareholders of Mechel PAO	26	–	–	–	–	–	(4)	–	**(4)**	–	**(4)**
Dividends declared to non-controlling interest	26	–	–	–	–	–	–	–	**–**	(2)	**(2)**
Disposal of non-controlling interest	6	–	–	–	–	1	–	–	**1**	4	**5**
As of December 31, 2014		**416,270,745**	**4,163**	**83,254,149**	**833**	**25,592**	**(186,272)**	**1,018**	**(154,666)**	**8,253**	**(146,413)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2015

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

		Attributable to equity holders of the parent									
		Common shares		**Preferred shares**							
	Notes	**Shares Quantity**	**Amount**	**Shares Quantity**	**Amount**	**Additional paid-in capital**	**Accumulated deficit**	**Accumulated other comprehensive income (loss)**	**Equity attributable to shareholders of Mechel PAO**	**Non-controlling interest**	**Total equity**
As of January 1, 2015		**416,270,745**	**4,163**	**83,254,149**	**833**	**25,592**	**(186,272)**	**1,018**	**(154,666)**	**8,253**	**(146,413)**
(Loss) profit for the period		–	–	–	–	–	(115,–163)	–	**(115,163)**	535	**(114,628)**
Other comprehensive income (loss)											
Net gain on available for sale financial assets		–	–	–	–	–	–	8	**8**	–	**8**
Re-measurement losses on defined benefit plans	24	–	–	–	–	–	–	(196)	**(196)**	2	**(194)**
Exchange differences on translation of foreign operations		–	–	–	–	–	–	287	**287**	–	**287**
Total comprehensive (loss) income for the year		**–**	**–**	**–**	**–**	**–**	**(115,163)**	**99**	**(115,064)**	**537**	**(114,527)**
Transfer of cumulative translation adjustment due to disposal of discontinued operations	17	–	–	–	–	–	–	(798)	**(798)**	–	**(798)**
Transfer of actuarial gains (losses) due to disposal of discontinued operations	17	–	–	–	–	–	(126)	126	**–**	–	**–**
Dividends declared to shareholders of Mechel PAO	26	–	–	–	–	–	(4)	–	**(4)**	–	**(4)**
Dividends declared to non-controlling interest	26	–	–	–	–	–	–	–	**–**	–	**–**
Acquisition of non-controlling interest	6, 26	–	–	–	–	2,730	–	–	**2,730**	(2,842)	**(112)**
As of December 31, 2015		**416,270,745**	**4,163**	**83,254,149**	**833**	**28,322**	**(301,565)**	**445**	**(267,802)**	**5,948**	**(261,854)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2015

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

	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Cash flows from operating activities			
Net loss		**(114,628)**	**(133,967)**
(Profit) loss from discontinuing operations, net of income tax		(822)	11,702
Net loss from continuing operations		(115,450)	(122,265)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:			
Depreciation		12,397	12,639
Depletion and amortization		1,688	1,790
Foreign exchange loss		71,106	103,176
Deferred income taxes	21	7,946	(15,525)
Allowance for doubtful accounts	13	1,464	3,671
Allowance for amounts due from related parties	14	43	126
Write-off of accounts receivable	27.1	247	185
Write-off of taxes receivable		–	1,605
Write-offs of inventories to net realisable value	15	1,003	394
Revision in estimated cash flows of rehabilitation provision	27.3	(47)	(236)
Loss on write-off of property, plant and equipment	27.1	691	661
Impairment of goodwill and non-current assets	19	1,460	7,996
Loss on sale of property, plant and equipment		102	85
Gain on sale of investments	27.6	–	(483)
Gain on accounts payable with expired legal term	27.6	(222)	(37)
Pension benefit plan curtailment gain	27.3	(142)	(58)
Pension service cost and actuarial loss, other expenses	24	192	52
Finance income	27.4	(183)	(107)
Finance costs	27.5	60,452	28,110
Other		480	1,492
Changes in working capital items :			
Trade and other receivables		4,719	2,089
Inventories		1,873	14,565
Trade and other payables		(7,972)	(1,640)
Advances received		(664)	62
Taxes payable and other current liabilities		(1,465)	8,771
Settlements with related parties		(275)	(29)
Other current assets		997	(822)
Interest received		25	22
Interest paid		(28,910)	(14,963)
Income taxes paid		(1,437)	(2,509)
Net operating cash flows of discontinued operations		(136)	(745)
Net cash provided by operating activities		**9,982**	**28,072**

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended December 31, 2015

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

		Year ended December 31,	
	Notes	**2015**	**2014**
Cash flows from investing activities			
Monthly installments for acquisition of DEMP		(4,819)	(3,223)
Proceeds from disposal of securities		143	538
Loans issued and other investments		(6)	(36)
Proceeds from disposal of Bluestone		101	–
Proceeds from disposal of subsidiaries		76	632
Purchases avaliable for sale securities		–	(113)
Proceeds from loans issued		15	151
Proceeds from disposals of property, plant and equipment		405	830
Purchases of property, plant and equipment		(5,076)	(11,365)
Purchases of mineral licenses and other related payments		(71)	–
Interest paid, capitalized		(830)	(5,141)
Net investing cash flows of discontinued operations		–	(12)
Net cash used in investing activities		**(10,062)**	**(17,739)**
Cash flows from financing activities			
Proceeds from borrowings		13,875	64,469
Repayment of borrowings		(11,896)	(77,761)
Dividends paid		(4)	(4)
Dividends paid to noncontrolling interest		(1)	(6)
Acquisition of noncontrolling interest in subsidiaries		(1)	(1,425)
Repayment of obligations under finance lease		(2,677)	(1,863)
Sale leaseback proceeds		–	675
Net financing cash flows of discontinued operations		–	(105)
Net cash used in financing activities		**(704)**	**(16,020)**
Effect of exchange rate changes on cash and cash equivalents		331	901
Net decrease in cash and cash equivalents		**(453)**	**(4,786)**
Cash and cash equivalents at beginning of period		1,344	6,130
Cash and cash equivalents at end of period		**891**	**1,344**

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

1. Corporate information

(a) Information

Mechel PAO ("Mechel", formerly – Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies owned by two individual shareholders (the "Controlling Shareholders"). The Controlling Shareholders, directly or through their associates, either acquired existing companies or established new companies, at varying dates from 1995 through March 19, 2003, which were contributed to Mechel after its formation. The formation of Mechel and contribution of the subsidiaries' shares into Mechel's capital represents a reorganization of entities under common control, and accordingly, has been accounted for in a manner similar to a pooling for the periods presented. During 2006, one of the Controlling Shareholders sold all his Mechel's stock to the other Controlling Shareholder, Igor Zyuzin, the ultimate controlling party. In accordance with the changes in the Civil Code of the Russian Federation Mechel has the registered changes in its Charter on March 17, 2016 and changed its corporate name from Mechel OAO to Mechel PAO. The registered office is located at Krasnoarmeyskaya St. 1, Moscow 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the "Group". Set forth below is a summary of the Group's primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at December 31, 2015
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	January 21, 1999	96.6%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	December 27, 2001	94.2%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 24, 2002	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 14, 2002	91.5%
Ural Stampings Plant (USP)	Russia	Steel products	April 24, 2003	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	October 16, 2003	90.0%
Mechel Nemunas (MN)	Lithuania	Steel products	October 15, 2003	100.0%
Mechel Energo	Russia	Power generation and sales	February 3, 2004	100.0%
Port Posiet	Russia	Transshipment	February 11, 2004	97.5%
Izhstal	Russia	Steel products	May 14, 2004	90.0%
Port Kambarka	Russia	Transshipment	April 27, 2005	90.4%
Mechel Service	Russia	Trading	May 5, 2005	100.0%
Mechel Trading	Switzerland	Trading	December 20, 2005	100.0%
Mechel Coke	Russia	Coke production	June 8, 2006	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	October 4, 2006	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 19, 2007	98.3%
Kuzbass Power Sales Company (KPSC)	Russia	Power distribution	June 30, 2007	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferroalloy production	August 6, 2007	100.0%
Yakutugol	Russia	Coal mining	October 19, 2007	100.0%
Port Temryuk	Russia	Transshipment	March 13, 2008	100.0%
Mechel-Carbon	Switzerland	Trading	April 2, 2008	100.0%
HBL Holding GmbH (HBL)	Germany	Trading	September 26, 2008	100.0%
Cognor Stahlhandel GmBH including its subsidiaries (Cognor)	Austria	Trading	September 25, 2012	100.0%
Elgaugol	Russia	Coal mining	August 14, 2013	99.9%

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

(b) Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity and heat power), and conducts operations in Russia, Ukraine, Kazakhstan and Europe. The Group sells its products within Russia and foreign markets. Through acquisitions, the Group has added various businesses to explore new opportunities and build an integrated steel, mining, ferroalloy and power group. The Group operates in a highly competitive and cyclical industry; any local or global downturn in the industries may have an adverse effect on the Group's results of operations and financial condition. While the Group will utilize funds from operations, it expects to continue to rely on debt markets and other financing sources for its capital needs. As discussed in Notes 4 and 5, management believes that the Group will secure adequate financing.

2. Basis of preparation of the consolidated financial statements

(a) Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for specific financial assets and liabilities that have been measured at fair value and certain exemptions applied by the Group under IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (Note 9).

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

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

For all periods up to and including the year ended December 31, 2014, the Group prepared its financial statements in accordance with generally accepted accounting principles in U.S. GAAP. The accompanying consolidated financial statements for the year ended December 31, 2015 are the first the Group has prepared in accordance with IFRS. Refer to Note 9 for information on how the Group adopted IFRS.

The consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

3. Summary of significant accounting policies

(a) Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the statement of profit (loss) and other comprehensive income (loss).

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

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

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

(b) Investments in associates

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

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

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

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

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

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

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

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

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

(c) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Fair value measurement

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

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

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

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

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

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

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

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

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duty.

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

The following criteria are also applicable to other specific revenue transactions:

Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, associated sales taxes (VAT) and export duties.

Principal vs agent arrangements

The Group is involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when the Group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when the Group has earned a commission or fee as an agent.

Shipping and handling costs

The Group classifies all amounts billed to customers in a sale transaction and related to shipping and handling as part of sales revenue and all related shipping and handling costs as selling and distribution expenses when the Group is acting as a principal in accordance with the requirements of IAS 18 *Revenue*.

Sales of power

In the Power segment (Note 28), revenue is recognised based on unit of power measure (kilowatts) delivered to customers, since at that point revenue recognition criteria are met. The billings are usually done on a monthly basis, several days after each month end.

Interest income

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

(f) Taxes

Current income tax

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

Uncertain tax positions

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

Deferred tax

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

(g) Foreign currencies

The Group’s consolidated financial statements are presented in Russian rubles, which is also the parent company’s functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies of the main Russian, European, Ukrainian and Kazakh subsidiaries of the Group are the Russian ruble, Euro, the Ukrainian hryvnia and the Kazakh tenge, respectively. The U.S. dollar is the functional currency of the other main international operations of the Group. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

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

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

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

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

	Rates at			Average exchange rates* for the years ended	
Currency	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**	**December 31, 2015**	**December 31, 2014**
U.S. dollar	72.88	56.26	32.73	60.96	38.42
Euro	79.70	68.34	44.97	67.78	50.82
Ukrainian hryvnia	3.05	3.56	3.97	2.83	3.25
Kazakh tenge	0.22	0.31	0.21	0.28	0.21

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

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

(ii) Group companies

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

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

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

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

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

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

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

Additional disclosures are provided in Note 17. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

(i) Mineral licenses

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

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

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

(j) Property, plant and equipment

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

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

The capitalised value of a finance lease is also included in property, plant and equipment. The present value of the expected cost for the rehabilitation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

Mining assets and processing plant and equipment

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

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

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

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of identified proven and probable reserves. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the Group concludes that a future economic benefit is more likely than not to be realized.

Stripping costs incurred in the development phase of a mine, before the production phase commences, are capitalized as part of cost of constructing the mine. The capitalization of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. Stripping cots undertaken during the production phase of mine are charged to profit and loss as cost of goods sold as incurred.

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

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

Other property, plant and equipment

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

Property, plant and equipment (apart from railway of the Elga coal deposit) are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the statement of profit (loss) and comprehensive income (loss).

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

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

(k) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit (loss) and other comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit (loss) and other comprehensive income (loss) on a straight-line basis over the lease term.

(l) Borrowing costs

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

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

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

(m) Intangible assets

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

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years.

(n) Financial instruments − initial recognition and subsequent measurement

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

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or as derivatives. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

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

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- AFS financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit (loss) and other comprehensive income (loss).

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit (loss) and other comprehensive income (loss). The losses arising from impairment are recognised in the statement of profit (loss) and other comprehensive income (loss) in finance costs for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 13.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit (loss) and other comprehensive income (loss) in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

Derecognition

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

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

Impairment of financial assets

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

- Financial assets − Note 11.
- Trade and other receivables − Note 13.

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 *Financial Instruments Recognition and Measurement* are satisfied.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit (loss) and other comprehensive income (loss). This category generally applies to interest-bearing loans and borrowings (Note 11).

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

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

(o) Derivative financial instruments

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

For the years ended December 31, 2015, 2014 and as of January 1, 2014, the Group did not have any derivatives designated as hedging instruments.

(p) Inventories

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

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

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

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

(q) Impairment of non-current assets

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

- Intangible assets − Note 20.
- Impairment of goodwill and other non-current assets − Note 19.

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group’s CGUs represent single entities with one component of business in each case. As of December 31, 2015, the Group had the following number of CGUs by segments for impairment testing purposes: Steel – 9, Mining – 7 and Power – 2.

In assessing value in use, the Group uses 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 the Group’s growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs of disposal, recent market transactions are taken into account.

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

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

Impairment losses of continuing operations are recognised in the statement of profit (loss) and other comprehensive income (loss) 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 recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the statement of profit (loss) and other comprehensive income (loss) 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 CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(r) Cash and cash equivalents

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

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

(s) Provisions

General

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

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

Rehabilitation provision

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

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

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

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

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

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

Environmental expenditures and liabilities

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

(t) Pensions and other post-employment benefits

Defined benefit pension and other post-retirement plans

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

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

Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognised directly in the statement of comprehensive income.

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

State pension fund

The Group's Russian subsidiaries are legally obligated to make defined contributions to the Russian Pension Fund, managed by the Russian Federation Social Security (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Pension Fund relating to defined contribution plans are charged to income in the year, to which they relate.

(u) Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognised during the reporting period. Estimates and assumptions are continually evaluated and are based on the Group's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

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

Abandoned activity

As of January 1, 2014, Southern Urals Nickel Plant ("SUNP") was recognised as abandoned activity according to a decision to close SUNP without sale. In July 2013, the Group received an approval from the governmental authorities to abandon the industrial complex. The closure of SUNP is aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses. As of December 31, 2015, the works related to closure of the plant are ongoing (Note 17); therefore the Group excluded the results of SUNP from the continuing operations and reported them as discontinued operations for the year ended December 31, 2015 and prior periods.

Capitalization of interest related to the Elga Coal Deposit and Railway Construction

In 2013 and 2014, Elgaugol OOO ("Elgaugol") and the Russian State Corporation "Bank for Development and Foreign Economic Affairs" ("VEB") signed credit agreements for financing of the Elga coal project approved by the VEB's Supervisory Board in September 2013. The use of proceeds under these facilities is limited to the development of the Elga coal project. Borrowing costs under these VEB facilities that are directly attributable to the construction of the Elga coal project are capitalized. Borrowing costs consist of interest including exchange differences arising from revaluation of foreign currency borrowings and other costs that the Group incurs in connection with the debt servicing.

Railway depreciation method

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

Principal vs agent arrangements

The Group makes significant judgment on gross or net revenue recognition. The Group evaluates the relevant facts and circumstances and takes into consideration the following factors in determining whether to recognize revenue on a gross basis:

- the Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- the Group has inventory risk before or after the customer order, during shipping or on return;
- the Group has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- the Group bears the customer's credit risk for the amount receivable from the customer.

Otherwise, revenues are reported net when the Group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. In the situation when the Group acts as a supplier and as a buyer with the same counterparty, the Group analyzes the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

Estimates and assumptions

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

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

Deferred tax assets and uncertain tax positions

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits and the existence of taxable temporary differences (Note 21). Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognised in the statement of profit (loss) and other comprehensive income (loss).

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

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

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (Note 19).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in Note 19.

Useful lives of items of property, plant and equipment

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

Mineral reserves

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

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 10).

Provisions

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, licenses, tax positions and the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable (Note 23).

Pensions and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. More details are provided in Note 24.

Rehabilitation provisions

The Group reviews rehabilitation provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Rehabilitation provisions are recognised in the period in which they arise and are stated at the best estimate of the present value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment* (Note 18).

Impairment of financial assets

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Determining net realizable value of inventories

The Group makes write-downs for obsolete and slow-moving raw materials and spare parts. In addition, finished goods of the Group are carried at net realizable value (Note 15). Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

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

- mineral licenses (Note 3(i));
- property, plant and equipment (Note 3(j));
- recovery of deferred tax assets (Note 3(f));
- non-current assets held for sale and discontinued operations (Note 3(h));
- inventories (Note 3(p));
- impairment of non-current assets (Note 3(q));
- pensions and other post-employment benefits (Note 3(t));
- provisions (Note 3(s));
- fair value measurement (Note 3(d)).

(v) Standards issued but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group's operations were in issue but not yet effective.

The effect from the application of IFRS 9 *Financial Instruments – Classification and Measurement*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* and has not yet been assessed.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no material impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014. The Group does not intend to adopt this standard before its effective date.

IAS 39 *Financial Instruments: Recognition and Measurement* – Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception (when IFRS 9 will be applied – see below).

IFRS 7 *Financial Instruments: Disclosures* – Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (when IFRS 9 will be applied – see below).

IFRS 9 *Financial Instruments – Classification and Measurement*. Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective for annual periods beginning on or after January 1, 2018).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the Group's available for sale financial assets and held to maturity investments.
- IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

In particular for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture. This amendment has no impact to the Group as the Group does not plan to make any sales or contribution of assets to its associates or joint ventures during the period (effective for annual periods beginning on or after January 1, 2016).

IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* – Amendments regarding the application of the consolidation exception by investment entities. This amendment has no impact to the Group as it is not an investment entity (effective for annual periods beginning on or after January 1, 2016).

IFRS 11 *Joint Arrangements* – Amendments regarding the accounting for acquisitions of an interest in a joint operation. *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 (effective for annual periods beginning on or after January 1, 2016). This amendment has no impact to the Group as the Group does not plan to acquire an interest in joint operations.

IAS 1 *Presentation of Financial Statements* – Amendments resulting from the disclosure initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2016).

IAS 16 *Property Plant and Equipment* and IAS 38 *Intangibles* – Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment. This amendment has no impact to the Group as the Group does not use revenue-based methods to depreciate/amortise its non-current assets (effective for annual periods beginning on or after January 1, 2016).

IAS 7 *Statement of Cash Flows* – Amendments resulting from the disclosure initiative The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2017).

IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after January 1, 2018). The Group is currently in the process of assessing the impact of adoption of IFRS 15 on the Group's consolidated financial statements.

IFRS 16 *Leases*, IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after January 1, 2019). The Group is currently in the process of assessing the impact of adoption of IFRS 16 on the Group's consolidated financial statements.

Annual improvements to IFRSs 2012–2014 cycle

The “September 2014 Annual improvements to IFRSs” is a collection of amendments to IFRSs in response to four standards. These improvements are effective from January 1, 2016 and are not expected to have a material impact on the Group. It includes the following amendments:

- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* – changes in methods of disposal;
- IFRS 7 *Financial Instruments: Disclosures* – servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements;
- IAS 19 *Employee Benefits* – discount rate: regional market issue;
- IAS 34 *Interim Financial Reporting* – disclosure of information “elsewhere in the interim financial report”.

4. Going concern

The current economic environment and economic conditions in the major segments of the Group’s operations create uncertainty about the level of demand for the Group’s products, the pricing of major products mined or manufactured by the Group and the availability of financing.

As of December 31, 2015, the Group’s total liabilities exceeded total assets by RUB 261,854 million.

As of December 31, 2015, the Group was not in compliance with a number of financial and non-financial covenants contained in the Group’s loan agreements relating to RUB 468,872 million of the Group’s debt. As of December 31, 2015, the Group had RUB 491,674 million of loans repayable during 2016 including RUB 175,743 million of long-term debt classified as short-term debt as of that date because of the covenant violations, and RUB 20,206 million of fines and penalties accrued on overdue loans and overdue interest. As of the date of approval of the consolidated financial statements, these breaches constitute an event of default and as a result, the lenders may request accelerated repayment of a substantial portion of the Group’s debt. The Group does not have the resources to enable it to comply with such accelerated repayment requests immediately. However, the Group’s management believes that the major part of the Group’s debt has been extended as of the date of approval of the consolidated financial statements and the Group will pursue to reach similar terms with other lenders.

By the date of approval of the consolidated financial statements, the Group signed amendment agreements with its three major lenders, which waived all previous defaults. Such amendments were conditional upon undertakings, which the Group had partially managed to fulfill before the date hereof (see Note 30).

The management has concluded that the existing uncertainty about the Group’s refinancing and restructuring of its outstanding debt described above represents a material uncertainty that casts significant doubt upon the Group’s ability to continue as a going concern. Based on management’s plans and actions undertaken as noted herein, management believes that the Group will achieve restructuring with all of its lenders and secure adequate financing to continue in operational existence for the foreseeable future. The management’s strategy includes enhancement of sales of the major steel products as well as diversifying into specialty products targeting higher marginal market niches. Together with the further development of the Group’s mining assets providing additional high-grade coking coal and pulverized coal injection (PCI) both to the Russian consumers and to exports markets the Group expects it to result in increase in profitability. The Group’s detailed monthly operational plans include further optimization of the costs structure and on-going control over the production costs and commercial expenses.

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

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

5. Capital management

The equity capital of the Group was formed by injecting shares of its operating subsidiaries into Mechel PAO. This together with robust and growing profits allowed the Group to raise debt to finance major development projects as well as to finance metallurgical market expansion to Europe. Although it has always been the Group’s priority to create and grow the shareholders’ value, during the past few years, the Group has become more focused on managing its debt which has been the major source for expansion and growth.

Metals and mining industry is known for its capital intensive investment cycle requiring secure long-term financing. Together with high volatility on the coal seaborne market and volatile constructive materials market, both significantly influenced by the development of the Chinese economy and its recent demand slow-down, and inability of the Russian debt markets to provide long-term financing at reasonable cost, this has become the major reason for the losses incurred by the Group, which resulted in negative equity and augmented debt burden.

Given current economic circumstances and the amount of debt, the Group’s primary objective is to settle the debt issues through a long-term restructuring of the loan portfolio brining down both cost of financing and actual interest payments.

The Group’s capital management has always been based on a number of covenants, of which “Net Debt to EBITDA” and ‘EBITDA to Net Interest Expense’ are the main indicators the management uses for control.

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2015:

Restrictive covenant	Requirement	Actual as of December 31, 2015
Mechel’s EBITDA to Net Interest Expense..........................	Shall not be less than 1.15:1.0	0.8:1.0
Mechel’s EBITDA to Consolidated Financial Expense........	Shall not be less than 0.9:1.0	0.8:1.0
Mechel’s Net Debt to EBITDA...	Not exceed 9.75:1.0	11.2:1.0
Mechel’s Total Debt to EBITDA	Not exceed 9.5:1.0	11.2:1.0

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2014:

Restrictive covenant	Requirement	Actual as of December 31, 2014
Mechel’s EBITDA to Net Interest Expense..........................	Shall not be less than 1.0:1.0-1.2:1.0	0.8:1.0-0.9:1.0
Mechel’s Net Debt to EBITDA...	Not exceed 10.0:1.0	10.3:1.0-10.4:1.0

In 2014, following a sudden fall of the markets the Group violated most of such covenants and defaulted on major credit facilities. That brought the Group to a situation where it vitally needs to significantly improve the debt maturity profile. Current restructuring arrangements with major creditors are aimed at adjourning repayment of principal and decreasing interest payments by capitalizing significant amount of related interest expense.

Nominal cost of debt is also important in the Group’s capital management. Throughout the restructuring process the Group turned away from the floating interest rates dependent on the Russian money market (Mosprime rate) in favor of the Russian Central Bank Key Rate, which is less volatile and better represents the cost of funds by the banks from the Central Bank of Russian Federation in the Russian economy. The management believes that it will allow the Group to avoid sudden splashes in the cost of debt due to temporary demand/supply fluctuations. On the foreign currency indebtedness the Group’s finance cost is also based on the floating LIBOR/EURIBOR, which remains comparatively low.

While the main goal for the Group is to revise the loan portfolio and provide for the improved debt service, the Group is also considering selling certain assets to bring the debt burden down in the short to mid-term run. There is no specific plan or list of such assets and it may further be elaborated as a result of restructuring and negotiations with the lenders.

On April 1, 2016, the Group signed several agreements to provide Gazprombank with an option to purchase 49% share in the Elga coal complex for a total consideration of RUB 34,300 million. Proceeds from the sale will be used for repayment of the Group’s debt assigned from Sberbank to Gazprombank (or their respective assignees), and to Sberbank and Sberbank Leasing (See Note 30).

The objectives, policies and processes for managing capital during the years ended December 31, 2015, 2014 and as of January 1, 2014 are not changed.

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

6. Business combinations and acquisition of non-controlling interests

There were no new business combinations in the years ended December 31, 2014 and 2015.

On December 22, 2011, the Group acquired 100% of the shares of Daveze Ltd, which held 100% of ownership interest in Donetsk Electrometallurgical Plant ("DEMP"), a steel plant located in Donetsk, Ukraine, for a consideration of $537,000 thousand (RUB 17,058 million at exchange rate as of December 22, 2011) to be paid in monthly installments during the period from December 2011 until December 2018. The Group continues to pay monthly installments and has paid RUB 4,819 million during 2015, as disclosed in the consolidated statement of cash flows.

The following table summarizes changes in non-controlling interests for the years ended December 31, 2014 and 2015:

Balance at January 1, 2014	**9,500**
Effect from disposal of subsidiaries	4
Dividends declared to non-controlling interest	(2)
Loss for the period	(1,263)
Other comprehensive income/(loss)	14
Balance at December 31, 2014	**8,253**
Change of non-controlling interest in existing subsidiaries by the Group (see Note 26)	(2,842)
Profit for the period	535
Other comprehensive income/(loss)	2
Balance at December 31, 2015	**5,948**

7. Material partly-owned subsidiaries

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

Proportion of equity interest held by non-controlling interests:

		Voting rights		
Name	**Country of incorporation and operation**	**At December 31, 2015**	**At December 31, 2014**	**At January 1, 2014**
SKCC and subsidiaries*	Russia	3.41%	3.41%	3.40%
Kuzbass Power Sales Company (KPSC)	Russia	27.86%	27.86%	27.86%
Chelyabinsk Metallurgical Plant (CMP)	Russia	5.86%	5.86%	5.86%
Southern Urals Nickel Plant (SUNP)	Russia	15.90%	15.94%	15.94%
Beloretsk Metallurgical Plant (BMP)	Russia	8.55%	8.55%	8.55%
Korshunov Mining Plant (KMP)	Russia	9.96%	9.96%	9.96%
Ural Stampings Plant (USP)	Russia	6.24%	6.24%	6.24%
Izhstal	Russia	10.00%	10.00%	10.00%

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

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

Carrying values of material non-controlling interest	At December 31, 2015	At December 31, 2014	At January 1, 2014
SKCC and subsidiaries	(576)	2,841	4,089
Kuzbass Power Sales Company (KPSC)	1,021	866	749
Chelyabinsk Metallurgical Plant (CMP)	514	381	520
Southern Urals Nickel Plant (SUNP)	1,028	950	649
Beloretsk Metallurgical Plant (BMP)	761	605	492
Korshunov Mining Plant (KMP)	2,670	2,555	2,289
Ural Stampings Plant (USP)	939	876	715
Izhstal	(495)	(907)	(87)

(Loss) profit allocated to material non-controlling interest	2015	2014
SKCC and subsidiaries	(565)	(1,263)
Kuzbass Power Sales Company (KPSC)	155	116
Chelyabinsk Metallurgical Plant (CMP)	135	(137)
Beloretsk Metallurgical Plant (BMP)	157	112
Korshunov Mining Plant (KMP)	114	262
Ural Stampings Plant (USP)	63	161
Izhstal	413	(822)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations. SUNP was recognised as abandoned operations according to a decision to close SUNP without sale (see Note 17). Therefore, SUNP is not disclosed in summarized statements of profit (loss) and other comprehensive income (loss) for the years ended December 31, 2015 and 2014 below. Profit allocated to SUNP's non-controlling interest holders is RUB 80 million and RUB 301 million for the years ended December 31, 2015 and 2014, respectively. SUNP's non-controlling interest is disclosed in statements of financial position as of December 31, 2015, 2014 and January 1, 2014 (see below).

Summarised statements of profit (loss) and other comprehensive income (loss) for 2015:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue	31,169	20,723	96,126	23,605	7,784	12,591	9,902
Cost of goods sold	(19,842)	(11,268)	(78,995)	(21,518)	(6,400)	(9,663)	(8,589)
Total selling, distribution and operating expenses, net	(6,324)	(8,924)	(6,425)	(2,028)	(3,004)	(3,212)	5,088
Total other income and (expense), net	(27,907)	167	(9,074)	1,739	2,741	998	(1,543)
(Loss) profit before tax	**(22,904)**	**698**	**1,632**	**1,798**	**1,121**	**714**	**4,858**
Income tax	(3,432)	(141)	665	37	26	298	(730)
(Loss) profit for the year from continuing operations	**(26,336)**	**557**	**2,297**	**1,835**	**1,147**	**1,012**	**4,128**
Total comprehensive (loss) income	**(26,336)**	**557**	**2,297**	**1,835**	**1,147**	**1,012**	**4,128**
Attributable to non-controlling interests	(565)	155	135	157	114	63	413
Dividends paid to non-controlling interests	68	–	–	–	–	–	–

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

Summarised statements of profit (loss) and other comprehensive income (loss) for 2014:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue	26,584	19,037	87,866	22,253	9,688	12,792	9,131
Cost of sales	(18,835)	(9,737)	(72,198)	(20,094)	(6,301)	(9,997)	(8,964)
Total selling, distribution and operating expenses, net	(7,649)	(8,920)	(6,557)	(2,022)	(3,196)	(1,376)	(7,466)
Total other income and (expense), net	(37,802)	150	(10,232)	1,126	2,502	1,099	(1,739)
(Loss) profit before tax	**(37,702)**	**530**	**(1,121)**	**1,263**	**2,693**	**2,518**	**(9,038)**
Income tax	2,921	(114)	(1,213)	50	(58)	64	819
(Loss) profit for the year from continuing operations	**(34,781)**	**416**	**(2,334)**	**1,313**	**2,635**	**2,582**	**(8,219)**
Total comprehensive (loss) income	**(34,781)**	**416**	**(2,334)**	**1,313**	**2,635**	**2,582**	**(8,219)**
Attributable to non-controlling interests	(1,263)	116	(137)	112	262	161	(822)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–

Summarised statements of financial position as of December 31, 2015:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	81,248	5,095	46,932	4,646	11,479	18,357	14,611	2,961
Non-current assets	61,713	1,235	61,183	2,345	3,449	11,961	7,437	5,972
Current liabilities	(168,615)	(2,559)	(96,666)	(318)	(5,891)	(2,622)	(6,935)	(11,678)
Non-current liabilities	(3,355)	(107)	(2,678)	(211)	(143)	(873)	(48)	(2,209)
Total equity	**(29,009)**	**3,664**	**8,771**	**6,462**	**8,894**	**26,823**	**15,065**	**(4,954)**
Attributable to:								
Equity holders of parent	(28,433)	2,643	8,257	5,434	8,133	24,153	14,126	(4,459)
Non-controlling interest	(576)	1,021	514	1,028	761	2,670	939	(495)

Summarised statements of financial position as of December 31, 2014:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	78,972	2,605	23,836	1,573	11,572	14,293	10,091	2,702
Non-current assets	47,305	2,735	63,449	4,961	1,691	15,264	8,573	15
Current liabilities	(126,201)	(2,134)	(77,488)	(399)	(6,044)	(2,898)	(4,388)	(8,901)
Non-current liabilities	(2,625)	(98)	(3,286)	(174)	(152)	(994)	(221)	(2,887)
Total equity	**(2,549)**	**3,108**	**6,511**	**5,961**	**7,067**	**25,665**	**14,055**	**(9,071)**
Attributable to:								
Equity holders of parent	(5,390)	2,242	6,130	5,011	6,462	23,110	13,179	(8,164)
Non-controlling interest	2,841	866	381	950	605	2,555	876	(907)

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

Summarised statements of financial position as of January 1, 2014:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	58,177	2,120	18,072	4,935	7,089	18,766	11,418	2,929
Non-current assets	55,080	2,221	52,155	26	3,691	9,127	3,425	7,368
Current liabilities	(75,143)	(1,529)	(58,886)	(500)	(4,772)	(3,765)	(3,086)	(8,024)
Non-current liabilities	(6,063)	(123)	(2,470)	(390)	(253)	(1,130)	(285)	(3,139)
Total equity	**32,051**	**2,689**	**8,871**	**4,071**	**5,755**	**22,998**	**11,472**	**(866)**
Attributable to:								
Equity holders of parent	27,962	1,940	8,351	3,422	5,263	20,709	10,757	(779)
Non-controlling interest	4,089	749	520	649	492	2,289	715	(87)

Summarised cash flow information for the year ended December 31, 2015:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	10,649	545	1,102	1,768	(637)	2,725	(125)
Investing	(11,834)	(608)	(13,738)	267	876	(5,047)	(34)
Financing	1,340	103	12,159	(1,881)	(284)	2,023	172
Increase (decrease) in cash and cash equivalents, net	**155**	**40**	**(477)**	**154**	**(45)**	**(299)**	**13**

Summarised cash flow information for the year ended December 31, 2014:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	14,755	109	14,053	2,253	7,287	2,262	(756)
Investing	(18,094)	(580)	(18,740)	(1,947)	(7,278)	(2,921)	(49)
Financing	380	447	5,175	(392)	(13)	997	773
Increase (decrease) in cash and cash equivalents, net	**(2,959)**	**(24)**	**488**	**(86)**	**(4)**	**338**	**(32)**

8. Investments in associates

Investments in associates are comprised of:

	Percent voting shares held at			**Investment carrying value at**		
Investee	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
Mechel Somani Carbon (Mining segment)	51%	51%	51%	45	39	17
TPTU (Mining segment)	40%	40%	40%	157	155	148
TRMZ (Mining segment)	25%	25%	25%	82	80	79
BWS Bewehrungsstahl GmbH (Steel segment)	–	–	36%	–	–	7
Total investments in associates				**284**	**274**	**251**

Mechel Somani Carbon Private Limited shares are owned by Mechel Carbon AG. The core business is distribution of metallurgical coals on the Indian market. Despite the ownership of 51% of Mechel Somani Carbon shares the Group cannot exercise control over the company.

TPTU (Tomusinskiy Transportation Management Center) shares are owned by SKCC. The core business is provision of transportation services both to the Group's subsidiaries and third parties.

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

TRMZ (Tomusinskiy Auto Repair Shop) shares are owned by SKCC. TRMZ provides repair services to the Group's subsidiaries.

The core business of BWS Bewehrungsstahl GmBH is cutting and processing steel products. Cognor owned 36% of the shares of BWS Bewehrungsstahl GmBH until December 15, 2014. The shares of BWS Bewehrungsstahl GmBH were sold by the Group to third parties for the consideration of EUR 70 thousand (RUB 5 million at exchange rate as of December 15, 2014).

The following table shows movements in the investments in associates:

	Mechel Somani Carbon Private Limited (Mining segment)	**TPTU (Mining segment)**	**TRMZ (Mining segment)**	**BWS Bewehrungsstahl GmbH (Austria) (Steel segment)**	**Total**
January 1, 2014	**17**	**148**	**79**	**7**	**251**
Share of profit (loss)	6	7	1	(7)	**7**
Disposal of investments	–	–	–	(1)	**(1)**
Exchange differences	16	–	–	1	**17**
December 31, 2014	**39**	**155**	**80**	**–**	**274**
Share of (loss) profit	(5)	2	3	–	**–**
Exchange differences	10	–	–	–	**10**
December 31, 2015	**44**	**157**	**83**	**–**	**284**

Summarized financial information on equity method investees as of December 31, 2015, 2014 and for the years then ended and as of January 1, 2014 is as follows:

Statement of financial position information	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
Current assets	929	801	804
Non-current assets	295	309	312
Current liabilities	(371)	(303)	(354)
Non-current liabilities	(19)	(21)	(20)

Statement of profit (loss) information	**2015**	**2014**
Revenues and other income	1,158	1,408
Operating income	70	44
Net income	36	19

9. First-time adoption of IFRS

The accompanying financial statements for the year ended December 31, 2015 are the first the Group has prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2014. For periods up to and including the year ended December 31, 2014, the Group prepared its consolidated financial statements in accordance with U.S. GAAP.

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as of December 31, 2015, together with the comparative period data for the year ended December 31, 2014, as described in the summary of significant accounting policies (Note 3). In preparing the financial statements, the Group's opening consolidated statement of financial position was prepared as of January 1, 2014, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in representing its U.S. GAAP financial statements, including the statement of financial position as of January 1, 2014 and the financial statements for the year ended December 31, 2014, in order to comply with IFRS.

The presentation currency of the Group's consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of the Group's consolidated financial statements prepared under U.S. GAAP. The reason of adopting the Russian ruble as the presentation currency in the consolidated statements under IFRS is to allow a greater transparency of the financial and operating performance of the Group as it more closely reflects the profile of revenue and operating income of the Group that are generated in Russian rubles. The U.S. GAAP financial information included in the consolidated financial statements as of January 1, 2014 and for the year ended December 31, 2014 previously reported in the U.S. Dollars has been converted into Russian rubles using the procedures outlined below:

- assets and liabilities denominated in currencies other than Russian ruble were translated into Russian rubles at the closing rates of exchange on the relevant balance sheet date;
- income and expenditure denominated in currencies other than Russian ruble were translated at the average rates of exchange prevailing for the relevant period;
- the cumulative translation reserves were set to nil as of January 1, 2014, the date of transition to IFRS. Share capital, share premium and other reserves were translated at the historical rates, and subsequent rates prevailing on the date of each transaction.

As a first-time adopter of IFRS, the Group applied IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS, which the Group has applied as of January 1, 2014.

The Group has applied the mandatory exceptions and certain optional exemptions as set out below:

Business combinations – The Group has not applied IFRS 3 *Business Combinations* retrospectively to the business combinations that occurred before the date of transition to IFRS. As a result, assets recognized and liabilities assumed in the past business combinations under U.S. GAAP have remained unchanged at the date of transition, except for the changes described in the notes below.

Currency translation differences – The Group has used the IFRS 1 exemption relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates*. As a result, the cumulative translation differences for all foreign operations of the Group were set to be zero at the date of transition. The gain or loss on a subsequent disposal of any foreign operations will include only exchange differences that arose after the date of transition.

Borrowing costs – The Group has applied the transitional provisions in IAS 23 *Borrowing Costs*, and capitalised borrowing costs on qualifying assets after the date of transition, and where the construction was commenced as of and after the date of transition to IFRS according to IAS 23 *Borrowing Costs*. Borrowing costs capitalised under U.S. GAAP prior to the date of transition have not been adjusted.

Rehabilitation provision – The Group has elected to use the IFRS 1 exemption relating to recognition of changes in the measurement of rehabilitation provision and therefore measures those in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* as of January 1, 2014.

Pension obligations − The Group has elected to recognize all cumulative actuarial gains and losses as at the date of transition in retained earnings. The Group is not required to re-compute the unrecognized portion of actuarial gains and losses from the inception of the defined benefit plans. Instead, the Group applies IAS 19 *Employee Benefits* from the date of transition. Therefore, at the date of transition, the Group recognizes the pension obligations in accordance with IAS 19 *Employee Benefits* and no unrecognized actuarial gains and losses are presented at the transition date.

Estimates − The estimates as of January 1, 2014 and December 31, 2014 are consistent with those made as of the same dates in accordance with U.S. GAAP apart from the estimates described above.

Changes in the presentation (CP) – The Group changed the presentation of certain items in the consolidated statement of financial position and statement of profit (loss) and comprehensive income (loss) as compared to the presentation under the previously issued U.S. GAAP financial statements. The most significant changes in the presentation related to:

CP(1) Other accounts receivable (RUB 1,920 million as of January 1, 2014 and RUB 932 million as of December 31, 2014) are presented within Trade and other receivables in the consolidated statement of financial position. Under U.S. GAAP, the Group reflected Other accounts receivables within Other current assets.

CP(2) Income tax receivable (RUB 2,936 million as of January 1, 2014 and RUB 578 million as of December 31, 2014) is presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Prepayments and other current assets.

CP(3) Other current financial assets (RUB 360 million as of January 1, 2014 and RUB 186 million as of December 31, 2014) are presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, Other current financial assets were reflected within Prepayments and other current assets.

CP(4) Interest payable (RUB 2,051 million as of January 1, 2014 and RUB 14,615 million as of December 31, 2014) is presented as part of Interest-bearing loans and borrowings in the consolidated statement of financial position. Under U.S. GAAP, Interest payable was reflected within Accrued expenses and Other current liabilities.

CP(5) Rehabilitation provision (non-current portion of RUB 1,655 million and current portion of RUB 66 million as of January 1, 2014, non-current portion of RUB 2,459 million and current portion of RUB 195 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Rehabilitation provision was presented as a separate item.

CP(6) Provision for taxes other than income tax (RUB 521 million as of January 1, 2014 and RUB 769 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Provision for taxes other than income tax, was reflected within Taxes and social charges payable.

CP(7) Accrual for unused vacation (RUB 1,618 million as of January 1, 2014 and RUB 1,651 million as of December 31, 2014) is presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, it was presented within Accrued expenses and other current liabilities.

CP(8) Dividends payable (RUB 108 million as of January 1, 2014 and RUB 104 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, Dividends payable were reflected as a separate item.

CP(9) Other current liabilities (RUB 7,233 million as of January 1, 2014 and RUB 27,989 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, they were reflected as a separate item.

CP(10) Provision for taxes and other provisions (RUB 325 million as of January 1, 2014 and RUB 1,285 million as of December 31, 2014) are presented within Provisions in the consolidated statement of financial position. Under U.S. GAAP, they were reflected within Accrued expenses and other current liabilities.

CP(11) Income tax payable (RUB 594 million as of January 1, 2014 and RUB 1,272 million as of December 31, 2014) is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, Income tax payable was reflected within Taxes and social charges payable. Long-term income tax payable in the amount of RUB 3,447 million as of December 31, 2014 is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Other non-current liabilities.

CP(12) The Group adopted net presentation of the input and output VAT on advances against advances issued and received for the purpose of harmonization with the RAS. Under U.S. GAAP, the Group presented advances and related VAT on advances in gross amounts. The effect of the changes was as follows:

- As of the date of transition to IFRS, it resulted in the decrease in advances received from related parties of RUB 71 million, decrease in advances issued and VAT on advances received included in Other current assets line in the amount of RUB 623 million, decrease in advances received of RUB 302 million and decrease in VAT on advances issued within Tax payable other than income tax of RUB 392 million;
- As of December 31, 2014, it resulted in the decrease in advances issued and VAT on advances received included in Other current assets in the amount of RUB 536 million, decrease in Advances received of RUB 292 million and VAT on advances within Tax payable other than income tax of RUB 244 million.

CP(13) Other operating income is presented as a separate item (RUB 851 million for the year ended December 31, 2014) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected within Administrative and other operating expenses, net.

CP(14) The Group presented Other non-current financial assets in a separate line in the statement of financial position. Under U.S. GAAP financial statements, these assets were included in Other non-current assets in the amount of RUB 201 million and RUB 59 million as of December 31, 2014 and January 1, 2014, correspondingly. Investments in associates are presented within Other non-current financial assets. Under U.S. GAAP, they were reflected within Investments in associates (RUB 72 million as of December 31, 2014).

CP(15) The Group presents provisions for legal claims (RUB 367 million as of January 1, 2014 and RUB 36 million as of December 31, 2014) as part of Provisions. Under U.S. GAAP, they were reflected within Other payables.

CP(16) Other income and Other expenses are presented as separate lines (RUB 684 million and RUB 1,486 million, for the year ended December 31, 2014, respectively) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected together.

Additionally, certain reclassifications have been made to the December 31, 2014 consolidated statement of financial position to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated statement of financial position, and have no impact on net income or equity of the Group.

Adjustments, reclassifications and remeasurement made in order to comply with IFRS

Property, plant and equipment and mineral licenses − The Group’s property, plant and equipment and mineral licenses are recorded at historical cost of acquisition. To arrive at IFRS historical cost the Group used the historical cost of property, plant and equipment and mineral licenses in accordance with U.S. GAAP as the Group believes that it reasonably approximates historical values in accordance with IFRS, and adjusted it through retrospective application of the requirements of IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* as described in Notes C, E, F below.

A – Debt issuance costs

In accordance with IFRS, fees paid on origination of loan facilities are recognized as transaction costs which are deducted from outstanding debt and are amortized using the effective interest rate method. Under U.S. GAAP, debt issuance costs were capitalized as a separate asset and included in Other current or non-current assets and then amortized using the effective interest rate method. The amounts reclassified from other current and non-current assets to re-measure debt liabilities in order to comply with IFRS requirements comprised RUB 2,766 million (current portion of RUB 2,743 million and non-current portion of RUB 23 million) and RUB 4,409 million (current portion of RUB 1,730 million and non-current portion of RUB 2,679 million) as of December 31, 2014 and January 1, 2014, respectively. The differences in effective interest rate method calculations under IFRS and U.S. GAAP resulted in a RUB 1,051 million decrease in the balance of Interest-bearing loans and borrowings and corresponding decrease in Foreign exchange gain (loss), net in the consolidated statement of profit (loss) and other comprehensive income (loss).

B – Exchange differences

Under U.S. GAAP, the Group recognized exchange differences on foreign operations in a separate component of equity. Exchange differences for all foreign operations are deemed to be zero as at the date of transition in order to comply with IFRS requirements. A reclassification in equity from Accumulated other comprehensive income (loss) to Accumulated losses of RUB 13,568 million was made as of January 1, 2014.

C – Rehabilitation provision expenses

According to U.S. GAAP, rehabilitation provision (asset retirement obligations) was measured based on the estimated cost of rehabilitation, discounted to its net present value upon recognition. Adjustments to discount rate were not reflected in the provisions under U.S. GAAP unless there was an upward revision in the future cost estimates. The Group has taken the exemption and applied IFRIC 1 Changes in the Existing Decommissioning, Restoration and Similar Liabilities; correspondingly, the rehabilitation provision as of January 1, 2014 was revalued using current discount rate as of that date. In the subsequent periods, the rehabilitation provision was remeasured using the current discount rate as of the end of each reporting period. This resulted in the following differences between rehabilitation provision recorded in the consolidated financial statements under IFRS and amounts reported under U.S. GAAP:

- As of January 1, 2014: increase in Current rehabilitation provision in the amount of RUB 31 million, increase in Non-current rehabilitation provision in the amount of RUB 2,433 million, increase in Property, plant and equipment in the amount of RUB 1,057 million;
- As of December 31, 2014: increase in Current rehabilitation provision in the amount of RUB 6 million, increase in non-current rehabilitation provision in the amount of RUB 539 million, decrease in Property, plant and equipment in the amount of RUB 637 million; increase in assets and liabilities classified as held for sale in the amount of RUB 170 million;
- Accretion expense is presented within Finance costs under IFRS. Under U.S. GAAP, it was presented as a separate line Accretion expenses. Accretion expense amounted to RUB 191 million under U.S. GAAP and RUB 256 million under IFRS for the period ended December 31, 2014;
- The difference in Rehabilitation provision methodology between U.S. GAAP and IFRS as described above resulted in the increase in Loss from discontinued operations related to SUNP in the amount of RUB 264 million under U.S. GAAP for the year ended December 31, 2014 (Note 17).

D – Actuarial gains and losses

At the date of transition to IFRS, the Group recognized actuarial gain/loss accumulated in prior period in retained earnings. Under IFRS, all prior service costs (positive or negative) are recognized in profit or loss when the employee benefit plan is amended and are not allowed to be spread over any future service period, which may create volatility in profit or loss whereas prior service cost is recognized in other comprehensive income/(loss) under U.S. GAAP at the date the plan amendment is adopted and then amortized into income over the participants' remaining years of service, service to full eligibility date, or life expectancy, depending on the facts and circumstances. Finally, U.S. GAAP requires a pension contribution tax to be recognized as a component of net benefit cost in the period in which the contribution is made. Under IFRS, taxes related to benefit plans are included in the calculation of the benefit obligation. All above mentioned differences resulted in the following adjustments:

- As of January 1, 2014: increase in Current pension obligations and decrease in Non-current pension obligations amounted to RUB 215 million and RUB 74 million, respectively;
- As of December 31, 2014: increase in Current pension obligations and Non-current pension obligations amounted to RUB 22 million and RUB 57 million, respectively;
- Actuarial gains and losses under the Group's defined benefit plans of RUB 696 million were recycled from other comprehensive income/loss to accumulated losses as of January 1, 2014;
- Administrative and other operating expenses increase in the amount of RUB 195 million for the period ended December 31, 2014.

E − Impairment of non-current assets and goodwill

Under U.S. GAAP, goodwill is tested for impairment by using a two-step approach. Under the first step, the fair value of a "reporting unit" is compared to its carrying value. A reporting unit is the level, at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired. Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit's goodwill carrying value exceeds the "implied" fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

Under IFRS, impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The Group recognized differences related to impairment of non-current assets other than goodwill – property, plant and equipment and mineral licenses:

Under U.S. GAAP requirements, in the first step of impairment testing, the carrying value of non-current assets is compared to the undiscounted cash flows of reporting unit, and only if the carrying amount exceeds the undiscounted cash flows, the second step is performed where the carrying amount is compared to the discounted cash flows. Under IFRS requirements, impairment is determined by comparison of the carrying amount to the recoverable amount, which is determined through the use of discounted cash flows. This difference in requirements resulted in the difference in impairment testing of non-current assets of two CGUs – the BCG Companies and Ekos-Plus as of January 1, 2014. According to the first step of impairment testing under U.S. GAAP, no excess of the carrying value over the undiscounted cash flows was identified, therefore the second step of testing was not performed, and no impairment of non-current assets was recognized. As a result of the impairment test in accordance with IAS 36 *Impairment of Assets*, excess of the carrying value over the recoverable amount was identified for the BCG Companies in the amount of RUB 40,491 million including impairment of property, plant and equipment of RUB 4,185 million and mineral licenses of RUB 54,862 million, and the respective effect on deferred taxes of RUB 18,556 million; and for Ekos-plus in the amount of RUB 51 million related to property, plant and equipment as of January 1, 2014.

As of December 31, 2014, the BCG Companies were recognized as disposal group classified as held for sale in the consolidated financial statements under IFRS as well as under U.S. GAAP. In the both sets of consolidated financial statements, net assets of the BCG Companies were written down to fair value less cost to sell and, as of December 31, 2014, there is no difference in the carrying value of the BCG Companies' non-current assets between IFRS and U.S. GAAP. A difference arose in the amount of impairment loss recognized by the Group in respect of the BCG Companies in the year ended December 31, 2014, as, under IFRS, impairment was partially recognized at the date of transition, whereas, in the U.S. GAAP financial statements, the total amount of impairment loss was recognized by the Group in the year ended as of December 31, 2014. The difference in Profit (loss) after tax from discontinued operations, net for the year ended December 31, 2014 amounted to RUB 69,424 million. This difference also affected Other comprehensive income (loss) as impairment was recognized in different periods under IFRS and under U.S. GAAP – effect on currency translation adjustment comprised RUB 28,933 million in the year ended December 31, 2014.

Other difference between IFRS and U.S. GAAP requirements relates to the reversal of previously recognized impairment loss. If there is a change in estimates used to determine the recoverable amount previously recognized impairment loss of property, plant and equipment can be reversed under IFRS whereas no such reversal is allowed according to U.S. GAAP requirements. This difference has affected the value of non-current assets of DEMP. According to U.S. GAAP, the Group recognized impairment loss in the consolidated financial statements as of June 30, 2013. The recoverable value was determined on binding offer from a third party. As of December 31, 2013, the recoverable value of DEMP has increased. According to U.S. GAAP, previously identified impairment loss was not reversed. As of January 1, 2014, according to IFRS requirements, the Group partially reversed impairment loss previously recognized in the amount of RUB 477 million. Due to the difference in the carrying value of DEMP's non-current assets as of January 1, 2014, the difference in impairment loss recognized during the period ended December 31, 2014 arose in the consolidated financial statement under IFRS as compared to those previously prepared in accordance with U.S. GAAP in the amount of RUB 258 million.

F – Negative goodwill

In accordance with U.S. GAAP (ASC 805 Business combination), the Group recognized negative goodwill which arose on the Group's business combinations carried out before January 1, 2009 as deferred credit for an excess of net assets acquired over cost and allocated it to the acquired non-current assets except for the deferred taxes. In order to comply with IFRS, the Group derecognized the carrying amount of that deferred credit at the transition date:

- As of the date of transition to IFRS, this difference affected Inventories (increase of RUB 189 million), Property, plant and equipment (increase of RUB 3,950 million), Mineral licenses (decrease of RUB 433 million), Deferred tax liabilities (increase of RUB 437 million);
- As of December 31, 2014 this difference affected Inventories (increase of RUB 185 million), Property, plant and equipment (increase of RUB 2,449 million), Mineral licenses (decrease of RUB 393 million), Deferred tax liabilities (increase of RUB 163 million);
- For the year ended December 31, 2014, this difference affected Cost of goods sold (increase of RUB 444 million);
- For the year ended December 31, 2014, this difference affected Impairment of goodwill and other non-current assets (increase of RUB 973 million).

G – Discontinued operations

In accordance with U.S. GAAP, the Group recognized and presented the BCG Companies as disposal group held for sale as of January 1, 2014 in the comparative information to the Group's consolidated financial statements for the year ended December 31, 2014 when criteria for recognition of the BCG Companies as disposal group held for sale were met. Under IFRS, the Group also recognized the BCG Companies as asset held for sale as of December 31, 2014. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, reclassification of comparative information in the statement of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented is not required, therefore the Group did not amend the presentation of its assets and liabilities in the comparative statement of financial position as of January 1, 2014. The effect of changes related to discontinued operations presentation made to comply with IFRS requirements, is presented in a separate column in the table below.

The Group recognized several subsidiaries as discontinued operations in its previously issued U.S. GAAP consolidated financial statements as of December 31, 2013: TPP Rousse, Invicta, Lomprom Rostov, TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading. These subsidiaries do not meet IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requirements to be recognized as discontinued operations as they do not represent a separate major line of business or geographical area of operations. The Group disposed of all these subsidiaries before December 31, 2013, and residual income and expenses related to these operations were presented as discontinued operations in the U.S. GAAP consolidated financial statements for the year ended December 31, 2014. In these financial statements prepared under IFRS, the Group presents these income and expenses as part of continuing operations. This resulted in the following adjustments to the U.S. GAAP amounts: increase in Revenue of RUB 126 million, increase in Cost of goods sold of RUB 140 million, increase in Allowance for doubtful accounts of RUB 567 million, and increase in Administrative and other operating expenses of RUB 204 million, and respective decrease in Loss from discontinued operations of RUB 785 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS as compared to the consolidated statement of operations under U.S. GAAP for the period ended December 31, 2014.

H – Inventory provision

The Group recalculated net realizable value provision in order to comply with IAS 2 *Inventories* requirements. This resulted in the increase in the Inventories balance in the amount of RUB 166 million as of January 1, 2014 and RUB 193 million as of December 31, 2014, and decrease in Cost of goods sold of RUB 31 million for the year ended December 31, 2014.

I – Borrowing costs

The Group recalculated borrowing costs capitalized in accordance with IFRS requirements. The effect of recalculations resulted in the increase in Property, plant and equipment in the amount of RUB 1,194 million as of December 31, 2014 in the consolidated statement of the financial position under IFRS as compared to U.S. GAAP and decrease in Finance costs of RUB 337 million and Foreign exchange gain/loss, net of RUB 857 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS compared to the consolidated statement of operations under U.S. GAAP.

J − Classification of liabilities

As of January 1, 2014, the Group was not in compliance with certain covenants under various credit facilities entered into with several lenders, including certain financial ratios such as “EBITDA to Net Interest Expense” and “Net Debt to EBITDA” ratios. In April-May 2014, the lenders provided their consent to waive all breaches. According to U.S. GAAP requirements, when breach of covenants exists at the end of reporting period and lender agrees after the reporting period and before authorization of the financial statements for the issue not to demand the repayment, long-term credit facilities can be classified as non-current. In accordance with IFRS, such credit facilities shall be presented as current at the reporting date, unless waivers were received from lenders before the reporting date. As the Group received consent from the lenders after the reporting date all corresponding liabilities are presented by the Group as current as of January 1, 2014. These liabilities included loans and borrowings for which covenants were breached, and also finance leases and other payables under contracts with cross-default clauses linked to those loans. The effect of this difference was as follows as of January 1, 2014:

- non-current interest-bearing loans and borrowings in the amount of RUB 220,884 million were reclassified to current;
- non-current finance lease liabilities in the amount of RUB 6,744 million were reclassified to current;
- accounts payable under contracts with breached cross-default provisions in the amount of RUB 7,329 million were reclassified to current from non-current liabilities as of January 1, 2014;
- as non-current payables were discounted in the U.S. GAAP consolidated financial statements, additional effect of unwinding the discount was recognized by the Group in the IFRS financial statements with an increase of RUB 2,017 million recorded in Trade and other payables line and decrease in Finance costs for the year ended December 31, 2014 in the amount of RUB 2,241 million.

K – Deferred taxes

Deferred tax assets and liabilities are treated as non-current under IFRS. Netting is performed for deferred tax assets and liabilities relating to income taxes levied by the same taxation authority on the same taxable entity where the Group has a legally enforceable right to set off current tax assets against current tax liabilities. Under U.S. GAAP, the deferred tax balances were calculated by applying the currently enacted statutory tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse. Deferred tax assets in the amount of RUB 5,132 million as of December 31, 2014 (January 1, 2014: RUB 1,144 million) and deferred tax liabilities in the amount of RUB 444 million as of December 31, 2014 (January 1, 2014: RUB 1,236 million) were recognized as current under U.S. GAAP. Under IFRS, deferred taxes have been recalculated based on the IFRS net book values of assets and liabilities and are presented as non-current. Deferred tax assets and deferred tax liabilities were offset in the amounts of RUB 7,799 million as of December 31, 2014 (RUB 793 million as of January 1, 2014).

The main differences in deferred tax amounts calculated under IFRS and deferred tax amounts calculated under U.S. GAAP were due to the following:

- Decrease in deferred tax liabilities of RUB 18,556 million related to impairment of the BCG Companies recognized in the IFRS financial statements as of January 1, 2014 (refer to note E – Impairment of non-current assets and goodwill above);
- Decrease in deferred tax liabilities of RUB 266 million as of January 1, 2014 and RUB 236 million as of December 31, 2014, respectively, due to changes in rehabilitation provision (refer to note C – Rehabilitation provision expenses above);
- Increase in deferred tax liabilities of RUB 437 million and RUB 163 million related to differences in the carrying values of property, plant and equipment and mineral licenses (refer to note F – Negative goodwill above);
- Changes in debt issuance costs under IFRS and U.S. GAAP (refer to Note A Debt issuance costs) resulted in difference between U.S. GAAP and IFRS deferred taxes of RUB 208 million as of December 31, 2014.

The aggregate decrease in deferred tax benefit of RUB 361 million for the year ended December 31, 2014 is the result of all adjustments described in the notes A-L and N.

L − Retained earnings and Non-controlling interest

Adjustments and re-measurements made by the Group as of January 1, 2014 in order to comply with IFRS requirements resulted in the increase in Accumulated deficit by RUB 52,781 million. This also had effect on net assets of subsidiaries and respective non-controlling interests.

M – The consolidated statement of cash flows

M1 – Under IFRS, Finance income is reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M2 – Under IFRS, Finance costs are reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M3 – Under IFRS, Interest received is reflected as a separate item within Changes in working capital.

M4 – Under IFRS, Interest paid is reflected as a separate item within Changes in working capital.

M5 – Under IFRS, Income taxes paid are reflected as a separate item within Changes in working capital.

M6 – Under IFRS, Interest paid, capitalized is presented as a separate item. Under U.S. GAAP, it was reflected within Purchases of property, plant and equipment.

M7 − Under IFRS, overdrafts are accounted for as cash equivalents. Under U.S. GAAP, cash flows from overdrafts were included in cash flows from financing activity on a net basis.

N − Former related parties

Under U.S. GAAP (ASC 810 Consolidation), the Group determined certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders ("the former Estar metallurgical plants") as Variable Interest Entities ("VIEs"). The Group is not the primary beneficiary of the former Estar metallurgical plants and the former Estar metallurgical plants were defined as related parties in previously issued U.S. GAAP consolidated financial statements as of December 31, 2014 and January 1, 2014. While under IFRS 12 *Disclosure of Interests* in Other Entities, an interest in an unconsolidated structured entity as defined by held by a reporting entity does not make the structured entity a related party to the reporting entity unless it would otherwise meet the definition of a related party (e.g. because the structured entity is an associate of the reporting entity). Accordingly, in the accompanying consolidated financial statements, the former Estar metallurgical plants are recognized as third parties. The main effects of this difference were as follows:

- As of January 1, 2014, this difference affected Trade and other receivables (increase of RUB 1,138 million), Amounts due from related parties, net of allowance (decrease of RUB 1,574 million), Other current assets (increase of RUB 436 million), Trade and other payables (increase of RUB 2,476 million), and Amounts due to related parties (decrease of RUB 2,476 million);
- As of December 31, 2014, this difference affected Trade and other receivables (increase of RUB 379 million), Amounts due from related parties, net of allowance (decrease of RUB 379 million), Trade and other payables (increase of RUB 828 million), and Amounts due to related parties (decrease of RUB 828 million);
- This difference affected Allowance for doubtful accounts (increase of RUB 1,696 million) and Provision for amounts due from related parties (decrease of RUB 1,696 million) for the year ended December 31, 2014.

Other adjustments made by the Group to the U.S. GAAP amounts in order to meet IFRS requirements, which are not described above were insignificant.

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

Reconciliation of equity as of January 1, 2014 (date of transition to IFRS):

	Notes	U.S. GAAP	U.S. GAAP	U.S. GAAP component classified as discontinued	Changes in the presentation	Adjustments and reclassifications/ remeasurements	IFRS
		Thousands of U.S. dollars	Millions of Russian rubles[1]	Note G			
Assets							
Current assets							
Cash and cash equivalents		272,936	8,927	52	–	–	8,979
Trade and other receivables	N,CP(1)	587,999	19,242	177	1,920	1,138	22,477
Due from related parties, net of allowance	N,CP(12)	56,792	1,859	–	(71)	(1,592)	196
U.S. GAAP deferred income taxes	K	25,092	821	323	–	(1,144)	–
Inventories	F,H	1,407,868	46,044	177	–	408	46,629
Income tax receivables	CP(2)	–	–	–	2,936	–	2,936
Other current financial assets	CP(3)	–	–	–	360	–	360
Other current assets	A,N,CP(1)-(3),CP(12)	439,624	14,327	94	(5,839)	(1,357)	7,225
U.S. GAAP current assets of discontinued operations	G	25,159	823	(823)	–	–	–
Total current assets		**2,815,470**	**92,043**	**–**	**(694)**	**(2,547)**	**88,802**
Non-current assets							
Property, plant and equipment	C,E,F	6,726,116	220,107	4,772	–	1,374	226,253
Mineral licenses	E,F	1,293,470	42,334	64,724		(55,331)	51,727
Non-current financial assets	CP(14)	14,787	484	–	59	–	543
Investments in associates		7,604	249	–	–	2	251
Deferred tax assets	K	5,066	166	–	–	351	517
Goodwill		687,763	22,510	–	–	10	22,520
Other non-current assets	A, CP(14)	127,861	4,184	1,080	(59)	(2,724)	2,481
U.S. GAAP – non-current assets of discontinued operations	G	2,156,373	70,576	(70,576)	–	–	–
Total non-current assets		**11,019,040**	**360,610**	**–**	**–**	**(56,318)**	**304,292**
Total assets		**13,834,510**	**452,653**	**–**	**(694)**	**(58,865)**	**393,094**
Equity and liabilities							
Current liabilities							
Interest-bearing loans and borrowings	CP(4),A,J	1,478,154	48,297	221	2,051	216,509	267,078
Trade and other payables	J,N, CP(7), CP(8),CP(9) CP(15)	929,375	30,393	956	8,757	11,867	51,973
Advances received	CP(12)	140,919	4,566	–	(302)	26	4,290
Due to related parties	N	106,943	3,500	–	–	(2,476)	1,024
Provisions	C,CP(6), CP(10), CP(15)	2,001	65	213	1,213	40	1,531
Pension obligations	D	18,578	607	59	–	211	877
Finance lease liabilities	J	122,754	4,018	2	–	6,789	10,809
Income tax payable	CP(11)	78,332	2,560	–	594	19	3,173
Tax payable other than income tax	CP(6), CP(11),CP(12)	264,861	8,672	440	(1,672)	–	7,440
U.S. GAAP dividends payable	CP(8)	3,293	108	–	(108)	–	–
U.S. GAAP deferred income taxes	K	37,775	1,236	–	–	(1,236)	–
U.S. GAAP accrued expenses and other current liabilities	CP(4), CP(7), CP(9), CP(10)	343,457	11,241	–	(11,227)	(14)	–
U.S. GAAP current liabilities of discontinued operations	G	57,781	1,891	(1,891)	–	–	–
Other current liabilities		–	–	–	–	29	29
Total current liabilities		**3,584,223**	**117,154**	**–**	**(694)**	**231,764**	**348,224**
Non-current liabilities							
Interest-bearing loans and borrowings	A,J	7,513,277	245,904	227	–	(220,880)	25,251
Provisions	C	50,567	1,655	215	–	2,433	4,303
Pension obligations	D	104,525	3,412	1,552	–	(61)	4,903
Finance lease liabilities	J	296,875	9,717	–	–	(6,744)	2,973
Deferred tax liabilities	K	506,241	16,569	18,871	–	(17,965)	17,475
Other non-current liabilities	J	293,370	9,601	1,181	–	(7,329)	3,453
U.S. GAAP long-term liabilities of discontinued operations	G	673,591	22,046	(22,046)	–	–	–
Due to related parties		21	1	–	–	(1)	–
Total non-current liabilities		**9,438,467**	**308,905**	**–**	**–**	**(250,547)**	**58,358**
Total liabilities		**13,022,690**	**426,059**	**–**	**(694)**	**(18,783)**	**406,582**
Equity							
Common shares		133,507	4,163	–	–	–	4,163
Preferred shares		25,314	833	–	–	–	833
Additional paid-in capital		834,118	25,591	–	–	–	25,591
Accumulated other comprehensive income (loss)	B,D	(47,601)	(12,844)	–	–	12,833	(11)
Accumulated deficit	B,D,L	(427,863)	(783)	–	–	(52,781)	(53,564)
Equity attributable to equity shareholders of Mechel PAO		**517,475**	**16,960**	**–**	**–**	**(39,948)**	**(22,988)**
Non-controlling interests	L	294,345	9,634	–	–	(134)	9,500
Total equity		**811,820**	**26,594**	**–**	**–**	**(40,082)**	**(13,488)**
Total equity and liabilities		**13,834,510**	**452,653**	**–**	**(694)**	**(58,865)**	**393,094**

[1] At exchange rates from U.S. dollar to Russian ruble as of January 1, 2014. The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles.

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

Reconciliation of equity as of December 31, 2014:

	Notes	U.S. GAAP	U.S. GAAP	Changes in the presentation	Adjustments and reclassifications/ remeasurements	IFRS
		Thousands of U.S. dollars	Millions of Russian rubles[2]			
Assets						
Current assets						
Cash and cash equivalents		70,800	3,983	−	−	3,983
Trade and other receivables	N,CP(1)	330,371	18,586	932	291	19,809
Due from related parties, net of allowance	N	9,303	523	−	(385)	138
U.S. GAAP – deferred income taxes	K	91,223	5,132	−	(5,132)	−
Inventories	F,H	640,671	36,043	−	294	36,337
Income tax receivables	CP(2)	−	−	578	−	578
Other current financial assets	CP(3)	−	−	186	−	186
Other current assets	A, CP(1)-(3),CP(12)	238,314	13,407	(1,918)	(2,739)	8,750
U.S. GAAP current assets of discontinued operations	C,G	151,602	8,529	−	(8,529)	−
Total current assets		**1,532,284**	**86,203**	**(222)**	**(16,200)**	**69,781**
Assets of disposal group classified as held for sale	C,G	−	−	−	8,696	8,696
Non-current assets						
Property, plant and equipment	C, F,I	3,944,427	221,266	−	3,033	224,299
Mineral licenses	F	719,951	40,503	−	(381)	40,122
Non-current financial assets	CP(14)	4,060	216	273	−	489
Investments in associates	CP(14)	6,142	346	(72)	−	274
Deferred tax assets	K	72,966	4,105	−	(2,667)	1,438
Goodwill		403,207	22,684	−	13	22,697
Other non-current assets	A, CP(14)	30,453	1,713	(201)	(50)	1,462
Total non-current assets		**5,181,206**	**290,833**	**−**	**(52)**	**290,781**
Total assets		**6,713,490**	**377,036**	**(222)**	**(7,556)**	**369,258**
Equity and liabilities						
Current liabilities						
Interest-bearing loans and borrowings	CP(4),A	6,678,549	375,725	14,615	(3,822)	386,518
Trade and other payables	N, CP(7), CP(8), CP(9), CP(15)	537,004	30,211	30,476	806	61,493
Advances received	CP(12)	81,599	4,591	(292)	(13)	4,286
Due to related parties	N	15,494	872	−	(828)	44
Provisions	C, CP(6), CP(10)	3,478	196	1,928	6	2,130
Pension obligations	D	18,656	1,050	−	22	1,072
Finance lease liabilities		270,980	15,245	−	(32)	15,213
Income tax payable	CP(11)	31,444	1,769	1,272	(8)	3,033
Tax payable other than income tax	CP(6), CP(11),CP(12)	215,251	12,110	(2,489)	26	9,647
U.S. GAAP − dividends payable	CP(8)	1,843	104	(104)	−	−
U.S. GAAP − deferred income taxes	K	7,893	444	−	(444)	−
U.S. GAAP − accrued expenses and other current liabilities	CP(4), CP(7), CP(9), CP(10)	811,345	45,645	(45,628)	(17)	−
U.S. GAAP − current liabilities of discontinued operations	C,G	150,033	8,441	−	(8,441)	−
Other current liabilities		−	−	−	36	36
Total current liabilities		**8,823,569**	**496,403**	**(222)**	**(12,709)**	**483,472**
Liabilities of disposal group classified as held for sale	C,G	−	−	−	8,607	8,607
Non-current liabilities						
Interest-bearing loans and borrowings	A	166,532	9,369	−	(23)	9,346
Provisions	C	43,712	2,459	−	539	2,998
Pension obligations	D	60,222	3,388	−	57	3,445
Finance lease liabilities		2,813	158	−	(12)	146
Deferred tax liabilities	K	179,987	10,126	−	(7,073)	3,053
Other non-current liabilities	CP(11)	81,288	4,557	(3,447)	47	1,157
Due to related parties	G	38	2	−	(2)	−
Income tax payable	CP(11)	−	−	3,447	−	3,447
Total non-current liabilities		**534,592**	**30,059**	**−**	**(6,467)**	**23,592**
Total liabilities		**9,358,161**	**526,462**	**(222)**	**(10,569)**	**515,671**
Equity						
Common shares		133,507	4,163	−	−	4,163
Preferred shares		25,314	833	−	−	833
Additional paid-in capital		834,136	25,591	−	1	25,592
Accumulated other comprehensive income (loss)	B,D,E	972,381	17,162	−	(16,144)	1,018
Accumulated deficit	B,D,E,L	(4,763,413)	(205,805)	−	19,533	(186,272)
Equity attributable to equity shareholders of Mechel PAO		(2,798,075)	(158,056)	−	3,390	(154,666)
Non-controlling interests	L	153,404	8,630	−	(377)	8,253
Total equity		**(2,644,671)**	**(149,426)**	**−**	**3,013**	**(146,413)**
Total equity and liabilities		**6,713,490**	**377,036**	**(222)**	**(7,556)**	**369,258**

[2] At exchange rate of 56.2584 RUB as of December 31, 2014. The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles.

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

Reconciliation of consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2014:

	Notes	U.S. GAAP	U.S. GAAP	Changes in the presentation	Adjustments and reclassifications/ remeasurements	IFRS
		Thousands of U.S. dollars	Millions of Russian rubles[3]			
Continuing operations						
Revenue	G	6,405,767	243,893	−	99	243,992
Cost of goods sold	G,F,H	(4,031,657)	(152,546)	−	(511)	(153,057)
Gross profit		**2,374,110**	**91,347**	−	**(412)**	**90,935**
Selling and distribution expenses		(1,460,641)	(55,599)	−	(62)	(55,661)
Loss on write-off of property, plant and equipment		(17,395)	(661)	−	−	(661)
Impairment of goodwill and other non-current assets	E,F	(120,237)	(6,764)	−	(1,232)	(7,996)
Allowance for doubtful accounts	G,N	(37,968)	(1,459)	−	(2,212)	(3,671)
Taxes other than income taxes		(172,447)	(6,442)	−	(27)	(6,469)
Allowance for amounts due from related parties	N	(41,425)	(1,823)	−	1,697	(126)
Administrative and other operating expenses	C,F,D,CP(13)	(392,606)	(14,946)	(851)	(518)	(16,315)
Other operating income	CP(13)	−	−	851	−	851
U.S. GAAP − Accretion expenses	C	(4,963)	(191)	191	−	−
Total selling, distribution and operating expenses, net		**(2,247,682)**	**(87,885)**	191	**(2,354)**	**(90,048)**
Operating profit (loss)		**126,428**	**3,462**	**191**	**(2,766)**	**887**
Finance income		2,398	88	−	19	107
Finance costs	C,I,J	(793,228)	(30,532)	(191)	2,613	(28,110)
Foreign exchange gain (loss), net	A,I	(2,396,123)	(105,129)	−	1,953	(103,176)
Share of profit of associates		276	10	−	(3)	7
Other income	CP(16)	−	−	684	−	684
Other expenses	CP(16)	(9,613)	(796)	(684)	(6)	(1,486)
Total other income and (expense), net		**(3,196,290)**	**(136,359)**	**(191)**	**4,576**	**(131,974)**
Loss before tax from continuing operations		**(3,069,862)**	**(132,897)**	**−**	**1,810**	**(131,087)**
Income tax benefit	K	183,908	9,187	−	(365)	8,822
Loss for the year from continuing operations		**(2,885,954)**	**(123,710)**	**−**	**1,445**	**(122,265)**
Discontinued operations						
Loss after tax for the year from discontinued operations, net	G,E	(1,473,780)	(82,231)	−	70,529	(11,702)
Loss for the year		**(4,359,734)**	**(205,941)**	**−**	**71,974**	**(133,967)**
Attributable to:						
Equity holders of the parent		(4,335,426)	(205,007)	−	72,303	(132,704)
Non-controlling interests	L	(24,308)	(934)	−	(329)	(1,263)
U.S. GAAP −less: dividends on preferred shares		(124)	(7)	−	−	(7)
U.S. GAAP − net (loss) income attributable to common shares of Mechel PAO		**(4,335,550)**	**(205,014)**	**−**	**72,303**	**(132,711)**
Other comprehensive income		**925,222**	**30,306**	**−**	**(29,136)**	**1,170**
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of income tax:	*E*	*925,222*	*30,306*	−	*(29,136)*	*1,170*
Exchange differences on translation of foreign operations		923,929	30,304	−	(29,136)	1,168
Exchange differences on translation of disposal of subsidiaries		−	−	−	−	−
Net gain on available for sale financial assets		1,293	2	−	−	2
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**(21,889)**	**(302)**	**−**	**175**	**(127)**
Re-measurement losses on defined benefit plans	D	(21,889)	(302)	−	175	(127)
Other comprehensive income for the year, net of tax		**903,333**	**30,004**	**−**	**(28,961)**	**1,043**
Total comprehensive loss for the year, net of tax		**(3,456,401)**	**(175,937)**	**−**	**43,013**	**(132,924)**
Attributable to:						
Equity holders of the parent		(3,432,093)	(175,003)	−	43,328	(131,675)
Non-controlling interests		(24,308)	(934)	−	(315)	(1,249)

[3] The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using those exchange rates which were previously applied in U.S. GAAP to translate operations from functional currency to U.S. dollar.

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

Reconciliation of Consolidated Statement of Cash Flows for the year ended December 31, 2014:

	Notes	U.S. GAAP	U.S. GAAP	Adjustments and reclassifications / remeasurements	IFRS
		Thousands of U.S. dollars[4]	**Millions of Russian rubles**		
Cash flows from operating activities					
Net loss[5]		(4,359,734)	(205,941)	71,974	(133,967)
Profit (loss) from discontinuing operations, net of income tax		1,473,780	82,231	(70,529)	11,702
Net loss from continuing operations		(2,885,954)	(123,710)	1,445	(122,265)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:					
Finance income	M1	–	–	(107)	(107)
Finance costs	M2	–	–	28,110	28,110
Other adjustments		2,739,002	118,978	(1,445)	117,533
Changes in working capital items:					
Interest received	M3	–	–	22	22
Interest paid	M4	–	–	(14,963)	(14,963)
Income taxes paid	M5	–	–	(2,509)	(2,509)
Other operating cash flows		891,579	32,804	(10,553)	22,251
Net cash provided by operating activities		**744,627**	**28,072**	**–**	**28,072**
Cash flows from investing activities					
Purchases of property, plant and equipment	M6	(443,668)	(16,506)	5,141	(11,365)
Interest paid, capitalized	M6	–	–	(5,141)	(5,141)
Other investing cash flows		(28,628)	(1,233)	–	(1,233)
Net cash used in investing activities		**(472,296)**	**(17,739)**	**–**	**(17,739)**
Cash flows from financing activities					
Proceeds from borrowings		1,815,966	64,469	–	64,469
Repayment of borrowings	M7	(2,185,343)	(78,030)	269	(77,761)
Other financing cash flows		(69,112)	(2,728)	–	(2,728)
Net cash used in financing activities		**(438,489)**	**(16,289)**	**269**	**(16,020)**
Effect of exchange rate changes on cash and cash equivalents		(35,965)	1,051	(150)	901
Net decrease in cash and cash equivalents		**(202,123)**	**(4,905)**	**119**	**(4,786)**
Cash and cash equivalents at beginning of period	M7	274,539	8,979	(2,849)	6,130
Cash and cash equivalents at end of period	m7	**72,416**	**4,074**	**(2,730)**	**1,344**

[4] The effect of translation from the functional currency to the presentation currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using the exchange rates which were previously applied in U.S. GAAP to translate operations from functional currency to U.S. dollar.

[5] See Notes to reconciliation of statements of profit (loss) and other comprehensive income (loss) above.

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

10. Fair value measurement

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

		December 31, 2015		December 31, 2014		January 1, 2014	
	Level	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities							
Interest-bearing loans and borrowings							
Floating rate loans	3	255,931	220,225	154,518	132,525	127,136	112,378
Bonds	1	16,684	13,398	15,284	7,168	24,883	19,876
Fixed rate loans	3	223,367	190,108	226,062	194,058	140,310	99,702
Total		**495,982**	**423,731**	**395,864**	**333,751**	**292,329**	**231,956**

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Long-term loans and borrowings, other non-current liabilities: the fair values of other non-current liabilities are based on the present value of the anticipated cash flows and approximate carrying value.

Derivatives: the fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Option-based derivatives are valued using Black-Scholes models and Monte-Carlo simulations. The derivative financial instruments are recorded at their fair value at each reporting date.

The movement of financial instruments measured at the fair value using unobservable inputs (Level 2 and 3) is presented below:

	Contingent consideration Drilling Program Level 3	**Swap transactions Level 2**	**Option Level 2**
January 1, 2014	**907**	**408**	**415**
Remeasurement recognised in OCI	689	–	–
Loss on contingent consideration remeasurement	85	–	–
Disposal/termination	–	(408)	(415)
December 31, 2014	**1,681**	**–**	**–**
Disposal/termination	(1,681)	–	–
December 31, 2015	–	–	–

The contingent consideration resulted from the acquisition of the BCG Companies and measured at fair value is represented by the Drilling Program contingent consideration, which was calculated using estimated tonnage of coal in-place determined by the independent appraiser. The present value of this liability was determined using an 8% discount rate, stated in the agreement for actual settlement of contingent obligation, which represents the estimate of the amount that would have been paid if the Group had settled the liability at the balance sheet date. The contingent consideration was released on the date of transfer of the BCG Companies' shares on February 12, 2015. As of December 31, 2014, the contingent consideration of RUB 1,681 million is included in Current liabilities of discontinued operations (Note 17).

Swap with VTB

On July 12, 2011, the Group entered into a non-deliverable cross currency RUB 5,000 million swap agreement with VTB Bank (Austria), which involved the exchange of two principal amounts in two different currencies at the prevailing currency rate at contract inception. During the life of the swap, the counterparties exchange fixed rate interest payments in the swapped currencies. At maturity, the principal amounts are again swapped at a pre-determined rate of exchange. The business objective of this instrument was to decrease the effective interest rate for a RUB 5,000 million bond via a positive net cash inflow from interest payments under the swap instrument according to the Group's expectations about U.S. dollar and Russian ruble exchange rate fluctuations. The underlying instrument for the swap transaction is a RUB 5,000 million bond bearing interest at 10% p.a. and maturing on August 25, 2020 (put option date – September 1, 2015) issued by Mechel OAO on September 7, 2010. Under the terms of the agreement, VTB Bank pays interest of 10% p.a. at RUB 5,000 million notional amount, the Group pays interest of 5.69% p.a. on $176,000 thousand notional amount (RUB 5,772 million at exchange rate 32.7292 as of January 1, 2014). Interest is paid on a semi-annual basis with the first payment on March 2, 2012. On the termination date, August 28, 2015, VTB Bank pays to the Group the notional amount of RUB 5,000 million, and the Group pays to VTB Bank the notional amount of $176,000 thousand (RUB 5,772 million at exchange rate 32.7292 as of January 1, 2014). For the year ended December 31, 2014, a loss of RUB 4,654 million related to the change in the fair value and termination of this swap instrument was included in the net foreign exchange gain (loss) in the statements of profit (loss) and other comprehensive income (loss). On December 29, 2014, the swap agreement with VTB Bank (Austria) was terminated, and the liability was transferred to VTB Bank (PAO) in the amount of $101,912 thousand. As of December 31, 2014, the amount of RUB 5,733 million ($101,912 thousand at exchange rate as of December 31, 2014) due to VTB Bank was recorded within Trade and other payables in the consolidated statement of financial position. In September 2015, the Group signed agreements with VTB Bank contemplating, among other things, extension of the loan tenures, decrease in the interest rates, revision of the collateral requirements and dismissal of all court proceedings, all of which becomes effective upon fulfilment of all conditions precedent and conditions subsequent. All conditions were fulfilled and the restructuring became effective in October 2015. As part of restructuring the outstanding liability of $107,703 thousand that remained from the swap agreement termination and related interest was converted to Russian rubles at spot rate of 64.65 rubles per U.S. dollar and repaid from the proceeds under the loan agreement signed between CMP and VTB Bank (PAO).

The Group accounts for the above mentioned swap instrument at fair value as a derivative instrument not designated or qualifying as a hedging instrument under IAS 39 *Financial instruments: Recognition and Measurement*. As of January 1, 2014, the fair value of this swap instrument was recorded in Other long-term liabilities in the amount of RUB 408 million. The fair value of the Group's swap contract was valued based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes had been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

Cross-currency options with Sberbank

In October 2012 and March 2013, SKCC entered into cross currency options with Sberbank. The options are contracted in respect of four facilities totaling to RUB 20,900 million for the purpose of working capital financing, falling due on October 6, 2017. The cross currency option creates an embedded derivative, which should be measured at fair value, bifurcated at inception from the host agreement and recorded as a liability. The fair value of the option is estimated using modified Black-Scholes model for barrier options. The liability under the host contract is recorded at amortized value, and the interest is accrued using the effective interest rate. The ruble-denominated facilities bear floating interest at 10.5%-11.5% p.a. When the underlying achieves the barrier value which was fixed at a level of 50.00 Russian rubles per 1 U.S. dollar, the liability under the host contract converts into cross-currency at a pre-determined strike exchange rate (RUB 6,500 million – at the exchange rate of 31.04 Russian rubles per 1 U.S. dollar, RUB 5,000 million – at the exchange rate of 30.80 Russian rubles per 1 U.S. dollar, RUB 1,500 million – at the exchange rate of 31.00 Russian rubles per 1 U.S. dollar, RUB 7,900 million – at the exchange rate of 30.64 rubles per 1 U.S. dollar) and a modified interest rate (minus 50bps to the original interest rate). Simultaneously, the interest rate is modified into floating 10.0%-11.0% p.a. After the triggering event, all future payments are made in U.S. dollars. The business objective of this instrument was the decrease in interest rate on the ruble-denominated facilities based on the Group's expectations about U.S. dollar and ruble exchange rate fluctuations.

As of January 1, 2014, the fair value of this option was recorded in Other long-term liabilities in the amount of RUB 415 million. The fair value of the Group's option contract was measured based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes have been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

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

On December 1, 2014, the exchange rate reached the point of 50.00 Russian rubles per 1 U.S. dollar and the facilities were converted into U.S. dollar equivalent of $677,981 thousand (RUB 33,439 million) due to the termination of cross currency options with Sberbank. For the year ended December 31, 2014, a RUB 14,303 million loss related to conversion was included in the net foreign exchange gain (loss) in the statements of profit (loss) and other comprehensive income (loss). The Group accounted for the above mentioned option at fair value as a derivative instrument not designated or qualifying as a hedging instrument under IAS 39 *Financial Instruments: Recognition and Measurement*.

11. Financial assets and financial liabilities

11.1 Financial liabilities: interest-bearing loans and borrowings

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

Short-term borrowings and current portion of long-term debt	**Interest rate**	**December 31, 2015**	**Interest rate**	**December 31, 2014**	**Interest rate**	**January 1, 2014**
In Russian rubles						
Banks and financial institutions.	9.4-16.0	8,239	8.0-27.0	10,557	9.0-15.3	6,606
Bonds issue...............................	–	–	13.5	2,705	–	–
Corporate lenders	6.7	65	6.4	64	8.3-10.0	78
Weighted average interest rate...	–	12.9%	–	15.0%–	–	9.4%
In U.S. dollars						
Banks and financial institutions.	8.0	310	–	–	2.3-8.0	5,269
Weighted average interest rate...	–	8.0%	–	–	–	7.1%
In Euro						
Banks and financial institutions.	8.3	3,591	–	–	–	–
Corporate lenders	2.8	182	2.8	178	2.8	158
Weighted average interest rate...	–	8.3%	–	2.8%	–	2.8%
In other currency						
Banks and financial institutions	–	–	–	-	9.0-9.5	411
Corporate lenders	–	–	2.5	27	–	–
Current portion of long-term debt	–	431,812	–	358,372	–	252,504
Interest payable.........................	–	27,269	–	13,093	–	2,052
Fines and penalties on overdue amounts..................................	–	20,206	–	1,522	–	–
Total short-term borrowings and current portion of long-term debt......................		**491,674**		**386,518**		**267,078**

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

Long-term debt	Interest rate	December 31, 2015	Interest rate	December 31, 2014	Interest rate	January 1, 2014
In Russian rubles						
Banks and financial institutions	10.1-17.0	134,786	10.1-35.6	124,452	7.5.-14.6	124,985
Bonds issue	2.0-15.0	16,551	8.4-13.0	17,376	8.3-13.0	42,639
Corporate lenders	6.7	5	6.4	4	3.9	8
Weighted average interest rate	–	12.9%	–	21.1%–	–	10.9%
In U.S. dollars						
Banks and financial institutions	1.8-8.0	260,212	1.6-10	202,721	1.7-10.9	91,272
Corporate lenders	–	–	–	–	5.1-9.0	448
Weighted average interest rate	–	8.0%	–	8.7%	–	6.6%
In Euro						
Banks and financial institutions	0.8-5.7	24,566	0.8-5.7	23,163	1.1-6.8	18,387
Weighted average interest rate	–	4.5%	–	4.7%	–	3.1%
In other currency						
Banks and financial institutions	–	–	–	2	8.5	16
Current part of long-term loans and borrowings		(431,812)		(358,372)		(252,504)
Total long-term debt		**4,308**		**9,346**		**25,251**

Aggregate scheduled maturities of the debt outstanding as of December 31, 2015, are as follows:

Payable by	
2016 (current portion)	491,674
2017	889
2018	1,101
2019	1,536
2020	782
Thereafter	–
Total	**495,982**

The unused portion under all credit facilities as of December 31, 2015, 2014 and January 1, 2014 was RUB 409 million, RUB 1,879 million and RUB 9,191 million, respectively.

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

The outstanding balances of principal amount of short-term and long-term debt by denominated currencies and major banks as of December 31, 2015, 2014 and January 1, 2014 were as follows:

Short-term and long-term debt	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
Russian ruble-denominated			
VTB	70,415	62,428	56,600
Gazprombank	33,639	33,726	32,477
Sberbank	32,141	32,503	39,476
Bonds	16,551	20,081	42,639
Uralsib	3,331	3,379	–
Eurasian Development Bank	1,767	2,101	2,334
Raiffeisen Bank	897	–	–
Other	905	940	790
Total	**159,646**	**155,158**	**174,316**
U.S. dollar-denominated			
Gazprombank	101,156	78,017	42,810
Pre-export facility	72,881	55,549	31,545
Sberbank	56,609	43,567	3,232
VEB	12,192	9,411	1,059
BNP	10,955	8,290	5,181
MCB	6,311	5,907	3,432
Alfa-bank	–	–	4,909
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	–	–	1,647
Raiffeisen Bank	–	1,665	1,412
ING Bank	–	–	630
Uralsib	–	–	324
Other	418	315	808
Total	**260,522**	**202,721**	**96,989**
Euro-denominated			
BNP	11,505	9,547	6,563
VTB	4,098	1,910	1,473
BNL	3,364	2,811	1,989
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	3,345	2,838	2,018
ING Bank	2,461	2,100	1,463
Raiffeisen Bank	475	406	332
Uralsib	–	–	1,574
Gazprombank	–	1,062	1,216
Other	3,091	2,667	1,917
Total	**28,339**	**23,341**	**18,545**
Denominated in other currencies			
Sberbank	–	–	341
Other	–	29	86
Total	**–**	**29**	**427**
Total short-term and long-term debt	**448,507**	**381,249**	**290,277**

(a) Pre-export facility agreement

As of December 31, 2015, pre-export facility agreement bears interest at LIBOR plus 5.5% p.a. – 7.5% p.a. The increased interest rate is applied to the overdue amounts. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014 were RUB 72,881 million ($999,970 thousand), RUB 55,549 million ($987,383 thousand) and RUB 31,545 million ($963,806 thousand), respectively.

As of December 31, 2015, the Group’s overdue principal amount and overdue interest on pre-export facility agreement amounted to RUB 38,049 million and RUB 3,857 million, respectively. The Group is currently negotiating the refinancing of this overdue amount with the syndicate of banks.

The fines and penalties on overdue amounts of RUB 28 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 165 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

(b) VTB facilities

In September 2015, the new restructuring agreements between the Group and VTB were signed. On October 13, 2015, the restructuring became effective. The restructuring provided for an extension of the repayment grace period until April 2017 and the final maturity until April 2020 for the credit facilities of Mechel PAO, SKCC and Yakutugol in the total amount of RUB 62,098 million. In addition, in October 2015, VTB provided CMP with a new ruble-denominated long-term loan in the amount of RUB 8,000 million. Interest rate under the restructured agreements is set at the level of the Key Rate of the Central Bank of Russia plus 2.35% through January 6, 2018 and 2.99% afterwards.

The outstanding balances of the ruble-denominated facilities as of December 31, 2015, 2014 and January 1, 2014 were RUB 70,415 million, RUB 62,428 million and RUB 56,600 million, respectively, bearing interest at 9.42-13.4% p.a.

During 2010-2015, VTB provided euro-denominated long-term and short-term loans to the Group, bearing interest at 5.3%-8.3% p.a. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014, were RUB 4,098 million, RUB 1,910 million and RUB 1,473 million, respectively.

As of December 31, 2015, the Group's overdue principal amount on VTB credit facilities amounted to RUB 45 million. The fines and penalties on overdue amounts of RUB 10,689[6] million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 9,704 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

(c) Gazprombank facilities

During 2011-2014, Gazprombank provided ruble-denominated long-term and short-term loans to the Group bearing interest at 9.8%-14% p.a. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014 were RUB 33,639 million, RUB 33,726 million and RUB 32,477 million, respectively.

During 2009-2014, Gazprombank provided dollar-denominated long-term loans to the Group bearing interest at 5.9%-7.5% p.a. The outstanding balances as of December 31, 2015, 2014 and January 1, 2014 were RUB 101,156 million ($1,387,930 thousand), RUB 78,017 million ($1,386,752 thousand) and RUB 42,810 million ($1,308,025 thousand), respectively.

As of December 31, 2015, the Group's overdue principal amount and overdue interest on Gazprombank credit facilities amounted to RUB 36,308 million and RUB 11,362 million, respectively. As of December 31, 2015, the Group was in process of restructuring of the overdue facilities. In the period from August through December 2015, the Group's subsidiaries (SKCC, Yakutugol, CMP, Mechel Service, Mechel-Energo, BMP, Port Posiet, Mechel Coke and USP) signed amendments to their credit facility agreements with Gazprombank for a total amount of RUB 129,666 million (including loans denominated in U.S. dollars at exchange rate as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022. The extension of the grace is subject to certain conditions, if they are not met the grace period will be moved to April 2017 and the final maturity to April 2020. Interest rate under restructured agreements is set at the level of the Central Bank of Russia rate plus 1.5% (subject to increase to 3.5% if certain conditions are not met). The restructuring under SKCC and Yakutugol facilities with the total balance of RUB 101,156 million became effective in January and March 2016.

The fines and penalties on overdue amounts of RUB 6,026 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 5,179 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

[6] According to the restructuring terms, after the Group pays RUB 895 million by equal quarterly instalments within 36 months after October 13, 2015, penalties in the amount of RUB 9,761 million are to be cancelled.

(d) Sberbank facilities

As of December 31, 2015, the Group's overdue principal amount and overdue interest on Sberbank credit facilities amounted to RUB 65,778 million and RUB 5,770 million, respectively.

The fines and penalties on overdue amounts of RUB 2,681 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 2,699 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015. Refer to Note 30 for details on the restructuring of the Sberbank facilities subsequent to December 31, 2015.

(e) VEB facility

The Elgaugol's outstanding balances under VEB credit facility as of December 31, 2015, 2014 and January 1, 2014 were RUB 12,192 million ($167,288 thousand), RUB 9,411 million ($167,288 thousand) and RUB 1,059 million ($32,342 thousand), respectively. As of December 31, 2015, the Group's overdue principal amount and overdue interest payable on VEB credit facilities amounted to RUB 10,673 million ($146,438 thousand) and RUB 246 million ($3,369 thousand), respectively. The use of proceeds under the facility is limited to the development of the Elga coal project.

The fines and penalties on overdue amounts of RUB 18 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 9 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

(f) Bonds

On July 30, 2009, Mechel PAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 5,000 million. The interest rate for the current coupon period amounted to 2.0% p.a. The maturity date is July 21, 2016. The balance outstanding as of December 31, 2015 was RUB 1,761 million and is classified as current debt.

On September 7, 2010, Mechel PAO issued two 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 15.0% p.a. The maturity date is August 25, 2020. The balance outstanding as of December 31, 2015 was RUB 4,684 million. In October 2015 bonds were restructured and according to the restructuring terms RUB 445 million were classified as short-term debt and RUB 4,239 million were classified as long-term debt. According to the new payment schedule the amount of RUB 445 million should be paid in 2016, RUB 868 million – in 2017, RUB 1085 million – in 2018, RUB 1,520 million – in 2019 and the final payment in the amount of RUB 766 million should be made in 2020.

On February 22, 2011, Mechel PAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 8.0% p.a. The maturity date is February 9, 2021. The bondholders have an option to demand repayment of the bonds at par value starting August 18, 2016. The balance outstanding as of December 31, 2015 was RUB 826 million and is classified as current debt.

On June 9, 2011, Mechel PAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 8.4% p.a. The bondholders have an option to demand repayment of the bonds at par value starting June 6, 2016. The maturity date is May 27, 2021. The balance outstanding as of December 31, 2015 in the amount of RUB 5,981 million is classified as current debt.

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

On June 14, 2011, Mechel PAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 5,000 million. The interest rate for the current coupon period amounted to 8.4% p.a. The bondholders have an option to demand repayment of the bonds at par value starting June 9, 2016. The maturity date is June 1, 2021. The balance outstanding as of December 31, 2015 in the amount of RUB 3,299 is classified as current debt.

(g) Other loans

Other loans represent ruble, U.S. dollar and euro-denominated long-term and short-term loans bearing interest at 0.8%-17% p.a. The outstanding balance under other loan agreements amounted to RUB 48,825 million as of December 31, 2015.

As of December 31, 2015, the Group's overdue principal amount and overdue interest on other loans amounted to RUB 10,436 million and RUB 735 million, respectively. The fines and penalties on overdue amounts of RUB 764 million were recorded in Interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2015. The amount of RUB 769 million was recorded as Finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2015.

In 2012-2015, the Group negotiated revolving credit agreements providing for unrestricted borrowings up to RUB 26,581 million with several banks. These revolving credit lines allow the Group to withdraw, repay and re-draw in the agreed amounts, timing and number of times until the arrangement expires. Borrowings bear interest at 8.3-14.5% p.a., and are continuously renewable at the Group's option for 1-2 years provided there is compliance with the terms of the agreement.

(h) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 100%-1 share of Yakutugol, 75%+4 shares of SKCC, 66.66% of CMP, 50%+2 shares of common shares of BMP, 80%+3 shares of KMP, 62.5% of Mechel Mining, 80%-5 shares of USP, 33.33%+1 share of common shares of Izhstal, 25%+1 share of Port Posiet, 49% of Elgaugol, 25% of registered capital of Mecheltrans and 100% of registered capital of Fincom-invest OOO as of December 31, 2015. In addition, the pledge of 25% of BFP and 25% of Mechel Temryuk became effective in 2016.

As of December 31, 2015, 2014 and January 1, 2014, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 33,510 million, RUB 29,899 million and RUB 31,764 million, respectively (Note 18). Carrying value of inventories pledged under the loan agreements amounted to RUB 4,037 million, RUB 3,530 million and RUB 890 million as of December 31, 2015, 2014 and January 1, 2014, respectively. Accounts receivable pledged as of December 31, 2015, 2014 and January 1, 2014 amounted to RUB 273 million, RUB 383 million and RUB 393 million, respectively. Third party bonds of RUB 114 million as of December 31, 2014, were pledged under the loan agreements.

(i) Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, minimum value of shareholders' equity and certain crossdefault provisions. The covenants also include, among other restrictions, limitations on: (1) indebtedness of certain companies in the Group; (2) amount of dividends in common and preferred shares; and (3) amounts that can be spent for capital expenditures, new investments and acquisitions. Covenant breaches if not waived generally permit lenders to demand accelerated repayment of principal and interest.

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2015:

Restrictive covenant	Requirement	Actual as of December 31, 2015
Mechel's Adjusted Shareholders' Equity, as defined in respective loan agreements	Greater than or equal to $3 billion (RUB 218,648 million at the December 31, 2015 exchange rate)	Negative RUB 42,384 million
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.15:1.0	0.8:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 0.9:1.0	0.8:1.0
Mechel's Net Borrowings	Not exceed $10 billion (RUB 728,827 million at the December 31, 2015 exchange rate)	RUB 492,903 million
Mechel's Net Debt to EBITDA	Not exceed 9.75:1.0	11.2:1.0
Mechel's Total Debt to EBITDA	Not exceed 9.5:1.0	11.2:1.0

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

As of December 31, 2015, the Group was not in compliance with all major Group's restrictive financial covenants, except for the targeted amount of Net borrowings (Total debt). There was a default on payments of principal and interest in the amount of RUB 161,289 million and RUB 21,969 million, respectively. As a result, the long-term debt of RUB 175,743 million was reclassified to short-term liabilities as of December 31, 2015.

11.2 Financial instruments risk management objectives and policies

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

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets to meet its liabilities as and when they fall due.

As of December 31, 2015, the Group was in breach of a number of financial covenants contained in the Group's loan agreements, which led to cross-defaults under other loan and finance lease agreements, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans.

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

	Maturity						
	On demand	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 3 years**	**More than 3 years but less than 4 years**	**More than 4 years**	**Total**
At December 31, 2015							
Loans and borrowings, including interest payable	472,159	23,385	1,542	1,754	2,187	986	**502,013**
Finance lease liabilities	10,534	6,469	360	169	20	1	**17,553**
Trade and other payables	1,038	50,200	15	–	–	–	**51,253**

	Maturity						
	On demand	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 3 years**	**More than 3 years but less than 4 years**	**More than 4 years**	**Total**
At December 31, 2014							
Loans and borrowings, including interest payable	378,120	40,522	10,701	666	666	781	**431,456**
Finance lease liabilities	14,544	5,774	107	37	14	–	**20,476**
Trade and other payables	1,050	56,941	1,009	–	–	–	**59,000**
Contingent consideration	–	1,681	–	–	–	–	**1,681**

	Maturity						
	On demand	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 3 years**	**More than 3 years but less than 4 years**	**More than 4 years**	**Total**
At January 1, 2014							
Loans and borrowings, including interest payable	251,431	38,683	38,507	16,429	685	1,433	**347,168**
Finance lease liabilities	9,843	4,637	2,217	864	253	56	**17,870**
Trade and other payables	–	49,407	1,319	543	–	–	**51,269**
Contingent consideration	–	907	–	–	–	–	**907**
Derivative financial instruments	–	823	–	–	–	–	**823**

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

Credit risk

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

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

Customer credit risk is managed by each subsidiary subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

The contractual credit period for sales of goods is varied from 30 to 60 days on average. No interest is charged on trade receivables.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

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

	December 31, 2015	December 31, 2014	January 1, 2014
Restricted cash (excluding cash on hand)	62	72	–
Trade and other receivables	16,033	20,076	22,753
Other financial assets	*303*	*448*	*543*
Promissory notes	218	204	2
Loans issued	72	102	410
Bonds	13	142	21
Deposits	–	–	110
Total	**16,398**	**20,596**	**23,296**

Foreign currency risk

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

The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. Approximately 19% of the Group's sales are denominated in U.S. dollars and 15% of the Group's sales are denominated in Euro, 59% of the Group's borrowings are denominated in U.S. dollars and 6% of the Group's borrowings are denominated in Euro. The Group does not have formal arrangements to mitigate foreign currency risk. However, management of the Group believes that the foreign currency risk is partly mitigated for the Group by the situation where approximately 34% of total sales of the Group are denominated in U.S. dollars and Euro that reduces negative impact of changes in exchange rates for the Group's borrowings and purchases denominated in foreign currencies, mostly in U.S. dollars. The Group does not currently use derivative instruments to manage exchange rate exposures.

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

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

Assets and liabilities denominated in U.S. dollars	December 31, 2015	December 31, 2014	January 1, 2014
Non-current assets	**–**	**135**	**45**
Long-term financial assets	–	135	45
Current assets	**2,549**	**7,175**	**11,993**
Receivables	1,399	5,235	4,831
Shor-term financial assets	–	138	13
Cash and cash equivalents	1,150	1,802	7,149
Long-term liabilities	**–**	**–**	**(6,008)**
Long-term loans and borrowings	–	–	(5,269)
Long-term payables	–	–	(536)
Long-term finance lease liability	–	–	(203)
Short-term liabilities	**(301,442)**	**(236,214)**	**(108,372)**
Short-term loans and borrowings	(279,905)	(207,419)	(92,440)
Short-term payables	(19,405)	(27,238)	(15,717)
Short-term finance lease liability	(2,132)	(1,557)	(215)

Assets and liabilities denominated in euro	December 31, 2015	December 31, 2014	January 1, 2014
Non-current assets	**–**	**11**	**21**
Long-term financial assets	–	11	21
Current assets	**3,096**	**2,263**	**2,323**
Receivables	1,939	1,381	1,629
Shor-term financial assets	–	21	110
Cash and cash equivalents	1,157	860	584
Long-term liabilities	**(97)**	**(207)**	**(210)**
Long-term loans and borrowings	(64)	(178)	(158)
Long-term finance lease liability	(33)	(29)	(52)
Short-term liabilities	**(30,705)**	**(25,632)**	**(19,906)**
Short-term loans and borrowings	(28,544)	(23,423)	(18,497)
Short-term payables	(1,936)	(1,978)	(1,357)
Short-term finance lease liability	(225)	(231)	(52)

Currency exchange rates	December 31, 2015	December 31, 2014	January 1, 2014
U.S. dollar	72.8827	56.2584	32.7292
Euro	79.6972	68.3427	44.9699

Sensitivity analysis

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

	Change in U.S. dollar to Russian ruble exchange rate	Effect on profit before tax	Change in Euro to Russian ruble exchange rate	Effect on profit before tax
2014				
	+30%	68,671	+30%	7,070
	-30%	(68,671)	-30%	(7,070)
2015				
	+40%	119,557	+40%	11,082
	-15%	(44,834)	-15%	(4,156)

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

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. As of December 31, 2015, 2014 and January 1, 2014, the shares of the borrowings with floating rates in the total amount of the borrowings were 53% (incl. Mosprime – 0.2%, key rate of the Central Bank of Russia – 14%, Libor, Euribor and others – 39%), 39% (incl. Mospime – 12%, Libor, Euribor and others – 27%) and 43% (incl. Mosprime – 18%, Libor, Euribor and others – 25%), respectively.

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

	Increase/ decrease in MosPrime (%)	Effect on profit before tax	Increase/ decrease in LIBOR (%)	Effect on profit before tax	Increase/decrease in Euribor (%)	Effect on profit before tax
2014						
	+9.32%	4,395	+0.02%	12	+0.07%	13
	-9.32%	(4,395)	-0.02%	(12)	-0.07%	(13)
2015						
	+6%	3,312	+0.5%	662	+0.25%	62
	-5%	(2,760)	-0.12%	(159)	-0.25%	(62)

11.3 Other current financial assets

In November 2011, the owners of the former Estar metallurgical plants and the Group entered into a loan agreement pursuant to which a loan of $944,530 thousand (RUB 28,433 million at exchange rate as of November 10, 2014) was granted by the Group. The loan consists of several tranches which bear interest at the range of 1-8.5% p.a. To secure the loan, shares in the major former Estar metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the former Estar metallurgical plants to repay most of the accounts receivable owed to the Group. According to the loan agreement, in the event that the loan is not repaid at maturity (September 30, 2012), the Group was entitled to enforce the pledge over the pledged former Estar metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service.

In September 2012, the Group extended the term of the loan for additional nine months from October 1, 2012, the pledges and guarantees remained the same. From September through December 2012, the loan was partially repaid in the amount of $213,360 thousand (RUB 6,654 million at the average rate for the period from September till December 2012). To make this repayment, the owners of the former Estar metallurgical plants used the proceeds received by them from the Group for the sale of Cognor and proceeds under a security deposit, as discussed further below. During the year ended December 31, 2013, $5,000 thousand (RUB 154 million at exchange rate as of March 19, 2013) were repaid and the owners of the former Estar metallurgical plants returned the security deposit paid by the Group in the end of 2012 for the acquisition of some assets pledged under the loan agreement.

The Group evaluates the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2015, 2014 and January 1, 2014, was RUB nil. This resulted in a $830,421 thousand (RUB 60,620 million at exchange rate as of December 31, 2015), $832,013 thousand (RUB 46,742 million at exchange rate as of December 31, 2014) and $888,015 thousand (RUB 29,064 million at exchange rate as of January 1, 2014) provision for doubtful accounts under this loan as of December 31, 2015, 2014 and January 1, 2014, respectively. The Group has not taken possession of assets provided as collateral because these entities are burdened with substantial amount of debt.

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

12. Cash and cash equivalents

	December 31, 2015	December 31, 2014	January 1, 2014
Cash and cash equivalents from continuing operations:			
Cash on hand	8	67	63
Cash at banks, including			
in Russian rubles	628	922	723
in U.S. dollars	1,150	1,802	7,149
in Euro	1,157	860	584
in other currencies	135	312	301
Other cash and cash equivalents	1	20	159
Total cash and cash equivalents from continuing operations	**3,079**	**3,983**	**8,979**
Cash and cash equivalents of discontinued operations (Note 17)	–	91	–
Total cash and cash equivalents	**3,079**	**4,074**	**8,979**

For the purpose of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 2,188 million, RUB 2,730 million and 2,849 million as of December 31, 2015, 2014 and January 1, 2014.

As of December 31, 2015, 2014 and January 1, 2014, short-term deposits in the amount of RUB nil, RUB 1,483 million and RUB 6,506 million with original maturities of less than 90 days were included in bank accounts in U.S. dollars, Russian rubles and other currencies, respectively. The following table presents the Group's deposits with maturity of less than 3 months:

	December 31, 2014	January 1, 2014
In Russian rubles	363	237
In U.S. dollars	1,100	6,251
In other currencies	20	18
Total short-term deposits	**1,483**	**6,506**

As of December 31, 2015, 2014 and January 1, 2014, the amount of RUB 62 million, RUB 72 million and RUB nil, respectively, was restricted for use by regulatory requirements.

As of December 31, 2015, 2014 and January 1, 2014, the Group had available RUB 409 million, RUB 1,879 million and RUB 9,191 million, respectively, of undrawn committed borrowing facilities.

13. Trade and other receivables

	December 31, 2015	December 31, 2014	January 1, 2014
Trade receivables	26,834	31,221	29,776
Domestic customers	22,332	23,842	24,126
Foreign customers	4,502	7,379	5,650
Other receivables	5,495	3,093	4,677
Total trade and other receivables	**32,329**	**34,314**	**34,453**
Less allowance for doubtful accounts	(16,348)	(14,505)	(11,976)
Total accounts receivable, net	**15,981**	**19,809**	**22,477**

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

As of December 31, the ageing analysis of trade receivables is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Total receivables	**32,329**	**34,314**	**34,453**
Past due but not impaired			
<30 days	2,181	1,908	1,664
30-60 days	618	623	377
61-90 days	241	332	406
91-180 days	248	346	698
181-365 days	326	557	345
>1 year	613	293	182
Total past due, but not impaired	**4,227**	**4,059**	**3,672**

Receivables that were past due but not impaired amounted to RUB 4,227 million as of December 31, 2015, RUB 4,059 million as of December 31, 2014, RUB 3,672 million as of January 1, 2014. Based on past experience, management believes that no allowance is necessary in respect of receivables that were past due but not impaired as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

As of December 31, 2015, trade and other receivables with an initial carrying value of RUB 16,348 million (December 31, 2014: RUB 14,505 million, January 1, 2014: RUB 11,976 million) were impaired and fully provided for. See below for the movements in the allowance for doubtful accounts:

	Total
At January 1, 2014	**(11,976)**
Charge for the year	(3,076)
Utilised/Unused amounts reversed	–
Disposal of subsidiaries	153
Reclassified in assets of disposal group held for sale	9
Exchange rate difference	385
At December 31, 2014	**(14,505)**
Charge for the year	(1,109)
Utilised/Unused amounts reversed	261
Disposal of subsidiaries	10
Reclassified in assets of disposal group held for sale	24
Exchange rate difference	(1,029)
At December 31, 2015	**(16,348)**

14. Related party disclosures

Note 1 provides information about the Group's structure, including details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with the related parties in 2014 and 2015.

	2015			2014		
	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)
Associates	199	80	28	284	91	(2)
Controlling shareholders and entities under control of the Group's Controlling shareholders	261	37	(23)	94	25	133
Total	**460**	**117**	**5**	**378**	**116**	**131**

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

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

	December 31, 2015			December 31, 2014			January 1, 2014		
	Receivables from	Payables to	Total outstanding, net	Receivables from	Payables to	Total outstanding, net	Receivables from	Payables to	Total outstanding, net
Associates	8	(50)	**(42)**	59	(44)	**15**	**50**	**(61)**	**(11)**
Controlling shareholders and entities under control of the Group's Controlling shareholders	88	(28)	**60**	79	–	**79**	146	(963)	**(817)**
Total	**96**	**(78)**	**18**	**138**	**(44)**	**94**	**196**	**(1,024)**	**(828)**

(a) Transactions with the associates

The Group's associates provide to the Group's subsidiaries transportation and auto repair services. During the years ended December 31, 2015 and 2014, the Group purchased from its associates transportation services in the amounts of RUB 105 million and RUB 166 million, respectively, and repair services in the amounts of RUB 94 million and RUB 86 million, respectively.

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

As of December 31, 2015, 2014 and January 1, 2014, the amounts of accounts receivable fully covered by the allowance included amounts receivable of RUB 24,035 million, RUB 24,254 million and RUB 15,386 million, respectively, described below. In December 2013, the Group, related party (an entity wholly owned by the Controlling Shareholder) and the former Estar metallurgical plants signed an assignment agreement. Under that agreement, the Group assigned to its related party the right to collect amounts due from the former Estar metallurgical plants, and the related party is to repay this amount to the Group through November 2017.

As of January 1, 2014, the Group had accounts payables to the Controlling Shareholder in the amount of RUB 964 million. In November 2013, the Group purchased 1.31% of Mechel Mining OAO from the Controlling Shareholder for consideration of RUB 1,895 million. The transaction was accounted for as an equity transaction. The Group has 99.999995% of voting shares of Mechel Mining OAO as of January 1, 2014.

The outstanding cash balance in Coalmetbank was RUB 1,580 million and RUB 2,183 million as of December 31, 2015 and December 31, 2014, respectively.

(c) Compensation to key management personnel

The total compensation to key management personnel was included in general and administrative expenses in the accompanying consolidated statements of profit (loss) and other comprehensive income (loss) and consisted of the short-term employee benefits in the amount of RUB 481 million and RUB 291 million in the year ended December 31, 2015 and 2014, respectively. There are no share-based payments to key management personnel. The Group's directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

15. Inventories

	December 31, 2015	December 31, 2014	January 1, 2014
Raw materials	11,496	10,553	13,377
Work in progress	5,769	5,843	6,742
Finished goods and goods for resale	17,924	19,941	26,510
Total inventories at the lower of cost and net realizable value	**35,189**	**36,337**	**46,629**

During 2015, RUB 1,003 million (2014: RUB 1,360 million) was recognised as an expense within cost of goods sold for inventories carried at net realisable value. The amount of inventories recognised as an expense during the period was RUB 100,577 million for 2015 (2014: RUB 99,934 million).

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

16. Other current and non-current assets

	December 31, 2015	December 31, 2014	January 1, 2014
Other current assets			
Input VAT and other taxes recoverable	2,976	4,569	4,371
Prepayments and advances for materials	3,545	2,605	2,525
Other current assets	1,606	1,576	329
Total prepayments and other current assets	**8,127**	**8,750**	**7,225**

	December 31, 2015	December 31, 2014	January 1, 2014
Other non-current assets			
Deferred assets from sale and lease back	339	372	359
Advance payment to non-state pension fund	462	565	562
Long-term prepayments	1	1	6
Prepaid bonds	–	–	184
Prepaid royalties	–	–	904
Other non-current assets	441	524	466
Total other non-current assets	**1,243**	**1,462**	**2,481**

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

As of December 31, 2015, 2014 and January 1, 2014, advanced payments of RUB 462 million, RUB 565 million and RUB 562 million were made by Yakutugol in terms of agreed pension benefit program to Mechel Fund non-state pension funds (Note 24).

Provision for advances issued of RUB 355 million and RUB 595 million was included in Allowance for doubtful accounts in the Statement of profit (loss) and other comprehensive income (loss) for the years ended December 31, 2015 and 2014.

17. Discontinued operations

BCG Companies

In December 2014, the Group entered into an agreement with a third party to sell 100% of the shares of the BCG Companies. The binding agreement was signed on February 12, 2015. The total consideration for the sale of the BCG Companies under the shares sale agreement consists of: (1) an immediate cash payment of $5,000 thousand (RUB 330 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015); (2) future royalty payments on coal mined and sold in the amount of 3.00 U.S. dollars (RUB 198.2 at exchange rate of 66.0585 RUB/USD as of February 12, 2015) per short ton, capped at $150,000 thousand (RUB 9,909 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015); (3) a portion of a sale price in case of any future sale of the BCG Companies and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closed within, respectively, five or ten years of the sale to the buyer. The fair value of future royalty payments and portion of selling price in case of future resale of the BCG Companies was assessed by the Group as RUB nil at the date of sale.

The contingent consideration arising upon the acquisition of the BCG Companies of $29,936 thousand (RUB 1,681 million at exchange rate as of December 31, 2015 and RUB 1,977 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015), which depends on the results of additional geological researches of reserves (“Drilling Program”), was released on the date of transfer of shares of February 12, 2015. The Group incurred expenses of $3,415 thousand (RUB 226 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015) related to consulting services from third party banks in connection with the sale. The disposal of the BCG Companies is aligned with the revised strategy aimed at restructuring the Group’s assets and development of its core businesses.

The results of operations of BCG Companies are included in the consolidated financial statements as discontinued operations for the period ended December 31, 2014.

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

Following the classification of the BCG Companies as held for sale, the fair value less costs to sell of net assets was determined in accordance with requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. As a result, the impairment loss of RUB 11,653 million was recognised as a loss on discontinued operations for the year ended December 31, 2014 (including RUB 669 million related to Property, plant and equipment and RUB 10,934 million related to Mineral licenses and RUB 50 million related to other assets).

The results of the BCG Companies presented as discontinued operations in the statements of profit (loss) and comprehensive income (loss) were as follows:

	2015	2014
Revenue	–	389
Cost of goods sold	–	(629)
Gross profit	**–**	**(240)**
Selling and distribution expenses	–	(10)
Administrative and other operation expenses	–	(864)
Other operating income	–	(207)
Finance costs	–	(146)
Total other income (expense), net	(34)	64
Impairment loss recognised on the remeasurement to fair value less costs to sell	–	(11,653)
Loss before tax from discontinued operations	**(34)**	**(13,056)**
Tax benefit		
Related to current pre-tax profit (loss)	–	(85)
Transfer of cumulative translation adjustment due to disposal of discontinued operations	798	–
Profit (loss) for the year from discontinued operations	**764**	**(13,141)**

The major classes of assets and liabilities of the BCG Companies classified as held for sale were as follows:

	At February 12, 2015	At December 31, 2014
Assets		
Cash and cash equivalents	–	91
Trade and other receivables	139	118
Other current assets	251	212
Other non-current assets	2,263	1,919
Property, plant and equipment	428	363
Mineral licenses	7,065	5,993
Assets of disposal group classified as held for sale	**10,146**	**8,696**
Liabilities		
Trade and other payables	2,297	2,026
Provisions	845	716
Pension obligations	3,650	3,097
Interest-bearing loans and borrowings	727	617
Other non-current liabilities	555	470
Liabilities of disposal group classified as held for sale	**8,074**	**6,926**
Net assets directly associated with disposal group	**2,072**	**1,770**

The net cash flows incurred by the BCG Companies are as follows:

	For the period from January 1 till February 12, 2015	For the year ended December 31, 2014
Operating	(91)	(738)
Investing	–	(17)
Financing	–	(105)
Net cash outflow	**(91)**	**(860)**

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

SUNP

On 25 May 2013, according to the decision on the closure of the plant the Group approved the plan of staff curtailment. The number of SUNP's personnel was reduced to 274 workers as of January 1, 2014. As of December 31, 2014, the number of personnel increased to 315 workers due to cease of third parties security services and redirection of these functions to SUNP's internal employees as part of the Group's efforts to reduce SUNP's costs.

The impairment of property, plant and equipment and nickel mineral license of RUB 2,600 million as of January 1, 2014 was recognised to reduce the carrying amount of the assets and liabilities of SUNP to their realizable value. The impairment of goodwill in the amount of RUB 184 million was recognised as of January 1, 2014.

The results of SUNP presented as discontinued operations in the consolidated statement of profit (loss) and comprehensive income (loss) were as follows for the years ended:

	December 31, 2015	**December 31, 2014**
Revenue	69	66
Cost of goods sold	(51)	(45)
Gross profit	**18**	**21**
Selling and distribution expenses	–	(1)
Administrative and other operating expenses	(115)	(133)
Other operating income	31	296
Finance costs	(30)	(32)
Other income	154	1,288
Profit for the year from discontinued operations	**58**	**1,439**

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

18. Property, plant and equipment

	Land	Buildings and constructions	Operating machinery and equipment	Transportation vehicles	Other equipment	Construction-in-progress	Mining plant and equipment	Railway Ulak-Elga	Total
Cost									
At January 1, 2014	**3,210**	**64,226**	**107,481**	**29,810**	**1,331**	**109,730**	**15,193**	**–**	**330,981**
Additions	–	786	2,467	137	13	19,794	488	–	**23,685**
Assets of disposal group held for sale / Discontinued operations	(130)	(99)	(13,496)	(254)	(33)	(93)	(1,579)	–	**(15,684)**
Change in rehabilitation provision	–	(225)	–	–	–	–	(496)	–	**(721)**
Transfers	3	8,249	15,523	1,814	49	(25,627)	(11)	–	**–**
Disposals	(318)	(1,205)	(3,192)	(705)	(203)	(1,308)	(129)	–	**(7,060)**
Exchange differences	357	1,845	6,159	100	142	42	643	–	**9,288**
At December 31, 2014	**3,122**	**73,577**	**114,942**	**30,902**	**1,299**	**102,538**	**14,109**	**–**	**340,489**
Additions	–	417	1,052	508	29	4,249	719	–	**6,974**
Change in rehabilitation provision	–	49	–	–	–	–	232	–	**281**
Transfers	59	4,886	1,607	171	24	(78,565)	14	71,804	**–**
Disposals	(10)	(474)	(3,196)	(1,170)	(156)	(1,378)	(156)	–	**(6,540)**
Exchange differences	142	(190)	(174)	(12)	40	(8)	–	–	**(202)**
At December 31, 2015	**3,313**	**78,265**	**114,231**	**30,399**	**1,236**	**26,836**	**14,918**	**71,804**	**341,002**
Depreciation and impairment									
At January 1, 2014	**(98)**	**(24,141)**	**(63,885)**	**(11,749)**	**(903)**	**(47)**	**(3,905)**	**–**	**(104,728)**
Depreciation charge	–	(4,593)	(7,693)	(2,718)	(170)	–	(227)	–	**(15,401)**
Disposals	–	395	2,650	565	186	–	126	–	**3,922**
Assets of disposal group held for sale	109	88	12,756	245	28	81	1,345	–	**14,652**
Impairment	(124)	(2,414)	(5,345)	(82)	(15)	(16)	–	–	**(7,996)**
Exchange differences	(17)	(245)	(5,605)	(69)	(105)	(35)	(563)	–	**(6,639)**
At December 31, 2014	**(130)**	**(30,910)**	**(67,122)**	**(13,808)**	**(979)**	**(17)**	**(3,224)**	**–**	**(116,190)**
Depreciation charge	–	(5,008)	(5,627)	(2,745)	(56)	–	(218)	(334)	**(13,988)**
Disposals	9	396	2,619	1,092	146	16	54	–	**4,332**
Reversal of impairment/ (impairment)	67	(485)	1,331	6	(4)	(931)	–	–	**(16)**
Exchange differences	(5)	430	280	39	(40)	–	–	–	**704**
At December 31, 2015	**(59)**	**(35,577)**	**(68,519)**	**(15,416)**	**(933)**	**(932)**	**(3,388)**	**(334)**	**(125,158)**
Net book value									
At January 1, 2014	**3,112**	**40,085**	**43,596**	**18,061**	**428**	**109,683**	**11,288**	**–**	**226,253**
At December 31, 2014	**2,992**	**42,667**	**47,820**	**17,094**	**320**	**102,521**	**10,885**	**–**	**224,299**
At December 31, 2015	**3,254**	**42,688**	**45,712**	**14,983**	**303**	**25,904**	**11,530**	**71,470**	**215,844**

According to the results of the impairment analysis of non-current assets, impairment losses of RUB 16 million and RUB 7,996 million were recognized by the Group for the years ended December 31, 2015 and 2014, respectively (Note 19).

Assets under construction

As of December 31, 2015, 2014 and January 1, 2014, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 544 million, RUB 1,700 million and RUB 1,986 million, respectively.

In 2015, the Group transferred the railway from the Elga coal deposit to Ulak station from Construction-in-progress in the amount of RUB 71,804 million, put it into exploitation and commenced its depreciation.

Property pledged to the bank as security

Certain property, plant and equipment have been pledged to secure bank loans and borrowings granted to the Group:

	December 31, 2015	December 31, 2014	January 1, 2014
Net book value	33,510	29,899	31,764

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

Finance leases

The Group leases machinery and equipment and transport under a number of finance lease agreements. At the end of the term of the lease, the Group obtains ownership of the assets or has an option to purchase leased assets at a bargaining price.

	December 31, 2015	December 31, 2014	January 1, 2014
Net book value − operating machinery and equipment	4,253	4,119	4,040
Net book value − transportation vehicles	12,332	14,021	15,056

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2015 was RUB 1,954 million (2014: RUB 9,254 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 15.02% (2014: 12.04%), which is the average rate of the borrowings.

19. Impairment of goodwill and other non-current assets

As of December 31, 2015, 2014 and January 1, 2014, the Group performed an impairment analysis of goodwill and other non-current assets on the level of cash generating units (CGU). The Group considers the relationship between market capitalization and its book value, among other factors, when reviewing for indicators of impairment. Goodwill acquired through business combinations has been allocated to CGUs for impairment testing as follows (before impairment write-downs):

		Goodwill		
Cash generating units	**Segment**	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
Yakutugol	Mining	13,399	13,399	13,399
Southern Kuzbass Power Plant	Power	3,827	3,827	3,827
Bratsk Ferroalloy Plant	Steel	2,930	2,930	2,930
Kuzbass Power Sales Company	Power	1,026	1,026	1,947
Port Posiet	Mining	756	756	756
Chelyabinsk Metallurgical Plant	Steel	672	547	370
Southern Kuzbass Coal Company	Mining	143	143	143
Mechel Temryuk	Mining	69	69	69
Ekos-plus	Mining	−	−	133
WNL Staal	Steel	−	−	74
Ramateks	Steel	−	−	74
Mechel Transport	Steel	−	−	52
Total		**22,822**	**22,697**	**23,774**

As of December 31, 2015, 2014 and January 1, 2014, the recoverable amount of CGUs except for WNL, Ramateks and Mechel Transport was determined based on value in use. The material assumptions that drive the value in use are represented by projected prices, sales volumes, discount rates. Some of these assumptions materially deviate from the Group’s historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia. All these material assumptions are based on the Group’s projections and are subject to risk and uncertainty. Recoverable amount of WNL, Ramateks and Mechel Transport was determined based on fair value less cost to sell.

The forecasted period for non-mining subsidiaries of the Group was assumed to be five years to reach stabilized cash flows, and the value beyond the forecasted period was based on the terminal growth rate of 2.5% as of December 31, 2014 and January 1, 2014. As of December 31, 2015, the value beyond the forecasted period was based on the terminal growth rates of 2%-3.7%. For mining subsidiaries of the Group the forecasted period was based on the remaining life of the mines.

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

Discount rates used in the impairment test for goodwill and non-current assets were estimated in nominal terms on the weighted average cost of capital basis. Inflation and discount rates, range of discount rates, estimated for each year for the forecasted period, are as follows:

	Forecast period, years				
At January 1, 2014	**2014**	**2015**	**2016**	**2017**	**2018**
Inflation rate in Russia	5%	5%	4%	4%	4%
Inflation rate in USA	2%	2%	2%	2%	2%
Inflation rate in Europeans countries	3%	4%	4%	3%	3%
Discount rate, %	10.5%-14.5%	11.5%-15.9%	11.9%-16.6%	11.2%-16.5%	11.2%-15.5%
For the year ends December 31, 2014	**2015**	**2016**	**2017**	**2018**	**2019**
Inflation rate in Russia	12%	6%	5%	5%	5%
Inflation rate in Europeans countries	3%	3%	3%	4%	3%
Discount rate, %	14.6%-18.0%	14.2%-17.5%	13.9%-17.1%	13.2%-17.6%	7.9%-14.0%
For the year ends December 31, 2015	**2016**	**2017**	**2018**	**2019**	**2020**
Inflation rate in Russia	7.5%	5.6%	5.2%	4.6%	4.3%
Inflation rate in Europeans countries	2.6%	2.6%	2.4%	2.3%	2.3%
Discount rate, %	8.5%-18.9%	8.5%-18.9%	8.5%-18.9%	8.5%-18.9%	8.5%-18.9%

For CGUs which cash flows relate to mineral assets, future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by the Group's engineers. The Group believes that the values assigned to key assumptions and estimates represent the most realistic assessment of future trends.

Impairment of goodwill

According to the results of the impairment analysis of goodwill, an impairment loss as of January 1, 2014 was recognised in the following CGUs:

Cash generating units	**Impairment loss on goodwill at January 1, 2014**
Kuzbass Power Sales Company (KPSC)	921
Ekos-plus	133
WNL Staal	74
Ramateks	74
Mechel Transport	52
Total	**1,254**

The remaining carrying value of the goodwill for KPSC where the Group recorded goodwill impairment as of January 1, 2014 was RUB 1,026 million. The remaining carrying value of goodwill for Ekos-plus, WNL Staal, Ramateks and Mechel Transport was RUB nil.

According to the results of the impairment analysis, no impairment of goodwill was identified as of December 31, 2014.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2015 was recognised in the following CGUs:

Cash generating units	**Impairment loss on non-current assets at December 31, 2015**
Southern Kuzbass Power Plant (SKPP)	1,444
Total	**1,444**

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

Impairment of goodwill at Southern Kuzbass Power Plant (SKPP) was identified due to change in structure of raw materials and usage of steam coal instead of lean grade coal with low oxidation rate from SKCC. The remaining carrying value of the goodwill of SKPP was RUB 2,383 million as of December 31, 2015.

Impairment of non-current assets

According to the results of the impairment analysis of Non-current assets, an impairment loss accumulated as of January 1, 2014 was recognised in the following reporting units:

Cash generating units	**Impairment loss on non-current assets at January 1, 2014**
BCG Companies	59,039
DEMP	5,162
Ekos-plus	64
Total	**64,265**

The remaining carrying value of non-current assets after recognition of impairment loss as of January 1, 2014 was RUB 10,596 million for the BCG Companies, RUB 1,637 million for DEMP and RUB 85 million for Ekos-plus. Impairment loss of the BCG Companies relates to property, plant and equipment in the amount of RUB 4,177 million and mineral assets in the amount of RUB 54,862 million and is conditioned by the decreased global coal prices and relatively high production costs which led to lower production volumes. As of December 31, 2014, the BCG Companies were recognised as discontinued operations (Note 17).

Impairment loss on non-current assets of DEMP in the amount of RUB 5,162 million was calculated by comparison of the carrying value of DEMP and its fair value less cost to sell determined based on the binding offer from a third party to acquire 100% of the shares of DEMP for the consideration of $80,000 thousand (RUB 2,618 million at exchange rate as of January 1, 2014). The amount of $20,000 thousand (RUB 656 million at exchange rate as of January 1, 2014) was planned to be paid as of the date of disposal. The remaining balance of $60,000 thousand (RUB 1,962 million at exchange rate as of January 1, 2014) was to be paid within two years after the disposal date under the interest-free loan agreement. Further negotiations on the sale of DEMP were suspended and deal was cancelled. Impairment loss of DEMP mainly related to property, plant and equipment in the amount of RUB 5,129 million.

Impairment loss of Ekos-plus relates to property, plant and equipment in the full amount of RUB 64 million. The remaining carrying value of property, plant and equipment of Ekos-plus as of January 1, 2014 was RUB 85 million.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2014:

Cash generating units	**Impairment loss on non-current assets at December 31, 2014**
Izhstal	6,669
DEMP	1,283
MS Romania	63
Total	**8,015**

The carrying value of non-current assets after impairment loss of Izhstal was written to RUB nil as of December 31, 2014. Impairment loss of Izhstal mainly relates to property, plant and equipment in the amount of RUB 6,666 million. The carrying value of non-current assets after impairment loss of DEMP was written down to nil as of December 31, 2014. Impairment loss was recognised in the amount of RUB 1,283 million (including RUB 1,279 million on property, plant and equipment) as of December 31, 2014 due to the existing uncertainty in the economic and political situation in Ukraine. Fair value less cost to sell of MS Romania was determined on the base of valuation reports of property. The remaining carrying value of property, plant and equipment of MS Romania after impairment loss was RUB 239 million as of December 31, 2014.

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

Based on comparison of carrying value and recoverable value of Ekos-plus as of December 31, 2014, excess of recoverable value over its carrying value was identified; therefore a reversal of previously recorded impairment loss was recognised in the amount of RUB 19 million. The carrying value of property, plant and equipment of Ekos-plus after reversal of impairment loss was RUB 94 million as of December 31, 2014.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2015:

Cash generating units	**Impairment loss on non-current assets at December 31, 2015**
Mechel Materials	5,982
Total	**5,982**

The carrying value of property, plant and equipment related to grinding mixing complex at Mechel Materials was written down to RUB nil as of December 31, 2015 due to unfavorable market conditions including decline in production volume of construction industry, cut-off of subsidy in related industries and forecasts of slow market recovery in the future.

According to the results of the impairment analysis, reversal of previously recognised impairment loss of non-current assets was identified for the following CGUs as of December 31, 2015:

Cash generating units	**Reversal of previously recognised impairment loss of non-current assets at December 31, 2015**
Izhstal	5,966
Total	**5,966**

Based on the comparison of carrying value and recoverable value of Izhstal, as of December 31, 2015, excess of recoverable value over its carrying value was identified; therefore reversal of previously recorded impairment loss as of December 31, 2014 was recognised in the amount of RUB 5,966 million due to optimization of product lines in favor of high value added long products and hardware and devaluation of ruble to U.S. dollar, which positively affected Izhstal's margin. The carrying value of property, plant and equipment of Izhstal after reversal of impairment loss was RUB 5,966 million as of December 31, 2015.

Sensitivity analysis

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

Based on the sensitivity analysis carried out as of December 31, 2014, a 5% decrease in future planned revenues would trigger the impairment of goodwill of KPSC in the amount of RUB 1,026 million and property, plant and equipment in the amount of RUB 629 million and the impairment of property, plant and equipment of HBL in the amount of RUB 448 million. Effects of reasonably possible changes in other key assumptions used in recoverable amount of CGUs as of December 31, 2014 do not lead to excess of carrying value over recoverable value.

Based on the sensitivity analysis carried out as of December 31, 2015, a 1% decrease in cash flows growth rate after the forecasted future and a 1% increase in discount rate would trigger additional impairment of goodwill at SKPP in the amount of RUB 188 million and RUB 286 million, respectively. A 5% decrease in future planned revenues would trigger additional impairment of goodwill at SKPP of RUB 1,721 million, impairment of goodwill of RUB 1,026 million, property, plant and equipment of RUB 630 million at KPSC and property, plant and equipment of RUB 383 million at BFP and would allow to reverse RUB 5,732 million of previously recoded impairment of Izhstal which is less than the full reversal recorded by the Group by RUB 235 million.

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

The calculated value in use of Izhstal is sensitive to currency exchange rates volatility. If US dollar appreciates to Russian ruble by 4.7%, the value in use of Izhstal would equal the carrying value after reversal of impairment loss – RUB 5,966 million. The strengthening of exchange rate of Russian ruble to U.S. dollar by 18.9% would not allow the Group to reverse any of previously recoded impairment, as the value in use would fall to nil.

20. Intangible assets

	Goodwill	Mineral licenses
Cost		
At January 1, 2014	**32,781**	**126,680**
Assets of disposal group held for sale / discontinued operations	–	(122,002)
Exchange differences	682	51,034
At December 31, 2014	**33,463**	**55,712**
Additions	–	71
Disposal	(88)	–
Exchange differences	(174)	–
At December 31, 2015	**33,201**	**55,783**
Amortisation and impairment		
At January 1, 2014	**(10,261)**	**(74,953)**
Depletion	–	(1,759)
Assets of disposal group held for sale / discontinued operations	–	105,075
Exchange differences	(505)	(43,953)
At December 31, 2014	**(10,766)**	**(15,590)**
Impairment	(1,444)	–
Amortization	–	(1,676)
Disposal	88	–
Exchange differences	299	–
At December 31, 2015	**(11,823)**	**(17,266)**
Net book value		
At January 1, 2014	**22,520**	**51,727**
At December 31, 2014	**22,697**	**40,122**
At December 31, 2015	**21,378**	**38,517**

Most of the existing mineral licenses (97%) relate to coal mines and were recorded upon acquisition of mining subsidiaries.

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

To determine the value of the mineral licenses as of December 31, 2015, the Group used quantities of underlying mineral assets, production data and other factors, including economic viability and any new exploration data.

The Group's mining segment production activities are located within Russia. The Group's mineral reserves and deposits are situated on the land belonging to government and regional authorities. Mining minerals require a subsoil license from the state authorities with respect to identified mineral deposits. The Group obtains licenses from such authorities and pays certain taxes to explore and produce from these deposits. These licenses expire up to 2037, with the most significant licenses expiring between 2019 and 2024, and management believes that they may be extended at the initiative of the Group without substantial cost. Management intends to extend such licenses for deposits expected to remain productive subsequent to their license expiry dates.

As of December 31, 2015, 2014 and January 1, 2014, the Group performed an impairment analysis of goodwill (Note 19).

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

21. Income tax

The major components of income tax (expense) benefit for the years ended December 31, 2015 and 2014 are:

Recognised in profit or loss	**2015**	**2014**
Current income tax		
Current income tax (charge) benefit	(331)	(502)
Adjustments in respect of current income tax of previous year	(45)	(6,201)
Deferred tax		
Relating to origination and reversal of temporary differences	(7,946)	15,525
Income tax (expense) reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	**(8,322)**	**8,822**

In January 2013, the Group created the consolidated group of taxpayers in accordance with part one of the Tax code of the Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ. The existence of the consolidated group of taxpayers is subject to compliance with several conditions stated in the Tax code of the Russian Federation. The Group believes that these conditions are satisfied as of December 31, 2015. As of January 1, 2013, the consolidated group of taxpayers consisted of 16 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. As of January 1, 2014, the number of subsidiaries included in the consolidated group of taxpayers increased to 20 participants and did not change as of December 31, 2015.

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

Taxes represent the Group's provision for profit tax. During 2013-2015, income tax was calculated at 20% of taxable profit in Russia, at 10.8% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan. The Group's subsidiaries incorporated in Liechtenstein and British Virgin Islands are exempt from profit tax. In the U.S., the tax rates were as follows: 39.55% in 2013-2015. Amendments in the tax legislation of the United Kingdom resulted in the decrease in tax rate from 23% since April 1, 2013 to 21% since April 1, 2014. The tax legislation of Ukraine was amended to decrease the statutory income tax rate to 19% from January 1, 2013 and 18% from January 1, 2014 and thereafter.

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

	2015	**2014**
Loss before tax from continuing operations	**(107,128)**	**(131,087)**
Income tax benefit at statutory income tax rate of 20%	**21,426**	**26,217**
Adjustments:		
Adjustments in respect of income tax related to previous years	(1,021)	(6,201)
Unrecognized current year tax losses and write-off of previously recognized asset on tax losses	(19,822)	286
Non-deductible expenses for tax purposes	(4,175)	(7,367)
Non-deductible interest expense	(2,588)	(3,815)
Effect of penalties on breach of credit agreements (unrecognized deferred tax asset)	(3,025)	–
Social expenditures	(134)	(116)
Tax penalties and interest	(36)	(794)
Effect of different tax rates in foreign jurisdictions	26	(37)
Effect of the disposal of subsidiaries	17	(204)
Change in uncertain tax positions	1,029	862
Other	(19)	(9)
At the effective income tax rate of 7.8% (6.7% in 2014)	**(8,322)**	**8,822**
Income tax (expense) benefit reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	**(8,322)**	**8,822**

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

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

On January 9, 2014, the Group failed to sustain its position in the court with respect to the income tax claims in the amount of RUB 3,977 million, including penalties and fines. The Group does not intend to appeal the decision. The Group recognized this income tax as income tax expense in the amount of RUB 3,666 million included in the line Adjustments in respect of current income tax of previous years and penalty in the amount of RUB 311 million included in line Tax penalties and interest in the income tax reconciliation in 2014.

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

	January 1, 2014	Tax income/ (expense) during the period recognised in profit or loss	Disposals of subsidiaries	Foreign currency translation effect	December 31, 2014
Deferred tax assets					
Property, plant and equipment	786	23	−	11	820
Rehabilitation provision	214	9	−	−	223
Inventory	140	(33)	−	18	125
Accounts receivable	63	125	−	2	190
Bad debt allowance	461	250	−	47	758
Loans & borrowings	9	3,417	−	2	3,428
Finance lease liabilities	2,077	(445)	−	7	1,639
Accounts payable and other liabilities	487	547	−	7	1,041
Net operating loss carry-forwards	4,584	12,094	−	183	16,861
Other assets	332	(9)	−	5	328
Deferred tax liabilities					
Property, plant and equipment	(14,628)	(1,493)	−	(359)	(16,480)
Mineral licenses	(8,341)	321	−	−	(8,020)
Rehabilitation provision	(17)	(10)	−	−	(27)
Inventory	(1,433)	471	−	(8)	(970)
Accounts receivable	(89)	(15)	−	(35)	(109)
Bad debt allowance	(229)	54	−	(2)	(177)
Loans & borrowings	(1,129)	527	−	(2)	(604)
Accounts payable and other liabilities	(48)	(34)	−	4	(78)
Other assets	(197)	(304)	−	(62)	(563)
Deferred tax assets (liabilities), net	**(16,958)**	**15,525**	**−**	**(182)**	**(1,615)**

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

	January 1, 2015	Tax income/ (expense) during the period recognised in profit or loss	Disposals of subsidiaries	Foreign currency translation effect	December 31, 2015
Deferred tax assets					
Property, plant and equipment	820	265	(30)	−	1,055
Rehabilitation provision	223	288	−	(1)	510
Inventory	125	(48)	−	(4)	73
Accounts receivable	190	79	−	(11)	258
Bad debt allowance	758	50	(2)	48	854
Loans & borrowings	3,428	(3,205)	−	1	224
Finance lease liabilities	1,639	(133)	−	2	1,508
Accounts payable and other liabilities	1,041	(279)	−	1	763
Net operating loss carry-forwards	16,861	(6,258)	3	5	10,611
Other	328	(4)	−	−	324
Deferred tax liabilities					
Property, plant and equipment	(16,480)	308	−	(27)	(16,199)
Mineral licenses	(8,020)	319	−	−	(7,701)
Rehabilitation provision	(27)	19	−	−	(8)
Inventory	(970)	372	−	(6)	(604)
Accounts receivable	(109)	62	−	−	(47)
Bad debt allowance	(177)	−	−	−	(177)
Loans & borrowings	(604)	151	−	(1)	(454)
Accounts payable and other liabilities	(78)	(35)	−	−	(113)
Other	(563)	103	−	(15)	(475)
Deferred tax assets (liabilities), net	**(1,615)**	**(7,946)**	**(29)**	**(8)**	**(9,598)**

Recognised in the consolidated statement of financial position information

	December 31, 2015	December 31, 2014	January 1, 2014
Deferred tax assets	1,492	1,438	517
Deferred tax liabilities	(11,090)	(3,053)	(17,475)
Deferred tax liabilities, net	**(9,598)**	**(1,615)**	**(16,958)**

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

For financial reporting purposes, the Group has not recognised deferred tax assets in the amount of RUB 37,747 million (2014: RUB 28,312 million, January 1, 2014: RUB 18,954 million) on losses in the amount of RUB 201,624 million (2014: RUB 162,506 million, January 1, 2014: RUB 103,668 million) that are available to carry forward against future taxable income of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will be available for utilization of such assets. Deferred tax assets on net operating loss carry forwards which are considered to be realized in the future, are mostly related to the Russian subsidiaries. For the Russian income tax purposes, certain subsidiaries of the Group have accumulated tax losses which expire in 2017-2025.

A deferred tax liability of approximately RUB 208 million, RUB 163 million and RUB 94 million as of December 31, 2015, 2014 and as of January 1, 2014, respectively, has not been recognised for temporary differences related to the Group's investment in foreign subsidiaries primarily as a result of unremitted earnings of consolidated subsidiaries, as it is the Group's intention, generally, to reinvest such earnings permanently.

Similarly, a deferred tax liability of RUB 817 million, RUB 1,090 million and RUB 1,679 million as of December 31, 2015, 2014 and as of January 1, 2014, respectively, has not been recognised for temporary difference related to unremitted earnings of consolidated domestic subsidiaries as management believes the Group has both the ability and intention to effect a tax-free reorganization or merger of major subsidiaries into Mechel.

There are no income tax consequences attached to the payment of dividends by the Group to its shareholders.

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

Probable income tax risks of approximately RUB 1,136 million, RUB 1,769 million and RUB 2,560 million as of December 31, 2015 and 2014 and as of January 1, 2014 have been accrued in the Group's consolidated financial statements. Possible income tax risks of approximately RUB 131 million, RUB 494 million and RUB 4,976 million as of December 31, 2015 and 2014 and as of January 1, 2014, respectively, have not been recognised in the Group's consolidated financial statements.

22. Trade and other payables

	December 31, 2015	December 31, 2014	January 1, 2014
Trade payables	26,300	26,373	27,131
Other payables	28,224	35,120	24,842
Total trade and other payables	**54,524**	**61,493**	**51,973**

All trade and other payables were short-term as of December 31, 2015, 2014 and January 1, 2014.

Other payables include accruals for breach of contracts, payables for property, plant and equipment acquired, salaries payable, dividends payable and other.

	December 31, 2015	December 31, 2014	January 1, 2014
Other payables			
Accruals for breach of contracts	1,038	1,050	–
Accounts payable for fixed assets	3,593	4,545	6,201
Salaries payable	1,483	1,583	1,665
Dividends payable, common shares	36	103	108
Dividends payable, preferred shares	–	1	–
Other	22,074	27,838	16,868
Total	**28,224**	**35,120**	**24,842**

The balance of other payables as of December 31, 2015 includes payables for acquisition of DEMP of RUB 14,799 million. The amount of other payables as of December 31, 2014 includes payables for acquisition of DEMP of RUB 15,888 million and payables to VTB originating from the termination of interest swap agreement with VTB Bank (Austria) of RUB 5,733 million. The balance of other payables as of January 1, 2014 is mainly presented by payables for acquisition of DEMP of RUB 12,032 million.

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

23. Provisions

	Rehabilitation provision	Provisions for legal claims	Tax provisions	Other provisions	Total
At January 1, 2014	**4,400**	**421**	**548**	**465**	**5,834**
Arising during the year	284	834	41	240	**1,399**
Utilized	–	(160)	(22)	(103)	**(285)**
Revision in estimated cash flow	548	–	–	–	**548**
Unused amounts reversed	–	(178)	(116)	–	**(294)**
Discount rate adjustment and imputed interest	(1,736)	–	–	–	**(1,736)**
Liabilities of disposal group held for sale/Discontinued operations	(297)	–	–	(213)	**(510)**
Exchange rate differences	–	–	169	3	**172**
At December 31, 2014	**3,199**	**917**	**620**	**392**	**5,128**
Current	201	917	620	392	**2,130**
Non-current	2,998	–	–	–	**2,998**
Arising during the year	403	1,321	361	27	**2,112**
Utilized	–	(513)	(504)	(81)	**(1,098)**
Revision in estimated cash flow	(1,027)	–	–	–	**(1,027)**
Unused amounts reversed	–	(325)	(101)	–	**(426)**
Discount rate adjustment and imputed interest	1,129	–	–	–	**1,129**
Exchange rate differences	–	–	104	49	**153**
At December 31, 2015	**3,704**	**1,400**	**480**	**387**	**5,971**
Current	265	1,400	480	387	**2,532**
Non-current	3,439	–	–	–	**3,439**

Rehabilitation provision

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

Provisions for legal claims

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

Tax provisions

Management believes that it has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group accrued RUB 480 million, RUB 620 million and RUB 548 million of other tax claims that management believes are probable as of December 31, 2015 and 2014 and January 1, 2014, respectively.

As of December 31, 2015, the Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be materially misstated or misleading.

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

24. Pensions and other post-employment benefit plans

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

A number of the Group's companies provide their former employees with old age retirement pensions, which are conditional to the member qualifying for the state old age pension. Some employees are also eligible for an early retirement in accordance with the state pension regulations and specific coal industry rules (so-called "territorial treaties"), which also provide for certain post-retirement benefits in additional to old age pensions. Additionally the Group voluntarily provides financial support, of a defined benefit nature, to its old age and disabled pensioners, who did not acquire any pension under the occupational pension program.

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

Several entities contribute certain amounts to non-state pension fund (Mechel Fund), which, together with amounts earned from investing the contributions, are intended to provide pensions to members of pension plans, which affect future contributions. However, pursuant to agreements between the Group and the non-state pension fund, under certain circumstances, these assets are not effectively restricted from possible withdrawal by the employer. Based on this fact, these assets do not qualify as "plan assets" under IFRS and these pension schemes are considered to be fully unfunded. The Group has no liabilities to provide either pension or lump sum upon retirement benefits, or both, to the employees who do not participate in the corporate pension plan.

As of December 31, 2015, there were 54,866 active participants under the defined benefit pension plans and 39,201 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2014 and January 1, 2014, the related figures were 56,508 and 59,199 of active participants under the defined benefit pension plans and 40,574 and 33,913 pensioners receiving monthly pensions or other regular financial support from these plans, respectively. The majority of employees at the Group's major subsidiaries belong to the trade unions.

The total number of the BCG Companies' employees and their dependents eligible for benefits as of January 1, 2014 was 364 and the total number of retirees and their dependents was 175. The majority of employees belonged to the United Mine Workers of America (UMWA).

Actuarial valuation of pension and other post-employment and postretirement benefits for the major subsidiaries was performed in April 2016, with the measurement date of December 31, 2015, 2014, and January 1, 2014. Members' census data as of that date was collected for all relevant business units of the Group.

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

Net employee benefit obligations	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
Defined benefit obligation	(4,866)	(4,517)	(4,170)
Other post-retirement benefit obligations	–	–	(1,610)
Total pension obligations	**(4,866)**	**(4,517)**	**(5,780)**

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

(a) Defined benefit obligation

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2014 are, as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
January 1, 2014	**(4,353)**	**183**	**(4,170)**
Current service cost	(148)	–	(148)
Net interest expense	(315)	13	(302)
Curtailment / settlement gain	58	–	58
Past service cost	96	–	96
Sub-total included in profit or loss	**(309)**	**13**	**(296)**
Benefit paid	251	(16)	235
Business combinations	(17)	–	(17)
Exchange difference	(370)	96	(274)
Actuarial changes arising from changes in demographic assumptions	(285)	–	(285)
Actuarial changes arising from changes in financial assumptions	229	–	229
Experience adjustments	55	–	55
Sub-total included in OCI	**(371)**	**96**	**(275)**
Contributions by employer	–	6	6
December 31, 2014	**(4,799)**	**282**	**(4,517)**

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2015 are, as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
December 31, 2014	**(4,799)**	**282**	**(4,517)**
Current service cost	(167)	–	**(167)**
Net interest expense	(418)	5	**(413)**
Curtailment / settlement gain	142	–	**142**
Past service cost	(25)	–	**(25)**
Sub-total included in profit or loss	**(468)**	**5**	**(463)**
Benefit paid	432	(21)	**411**
Exchange difference	(155)	45	**(110)**
Actuarial changes arising from changes in demographic assumptions	116	–	**116**
Actuarial changes arising from changes in financial assumptions	(119)	–	**(119)**
Experience adjustments	(191)	–	**(191)**
Sub-total included in OCI	**(349)**	**45**	**(304)**
Contributions by employer	–	7	**7**
December 31, 2015	**(5,184)**	**318**	**(4,866)**

Amounts of the defined benefit obligations recognized in the consolidated statement of the financial position were as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Current liabilities	(1,120)	(1,072)	(823)
Noncurrent liabilities	(3,746)	(3,445)	(3,347)
Total net pension obligations	**(4,866)**	**(4,517)**	**(4,170)**

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

The plan asset allocation of the investment portfolio was as follows as of December 31, 2015, 2014 and January 1, 2014:

	December 31, 2015	December 31, 2014	January 1, 2014
Debt instruments	179	142	94
Equity instruments	80	76	50
Property	11	9	7
Cash and cash equivalents	29	29	19
Other assets	19	26	13
Total plan assets	**318**	**282**	**183**

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

Staff reduction, curtailments and amendments of benefit programs at several entities lead to appropriate curtailment gains and past service costs in reporting periods. Almost all of Group entities have a practice of lump-sum financial support to former employees, so the risk of human longevity less significant than in the case of life-long benefits. This risk is controlled by using rather conservative life expectancy tables. The risk of a significant fluctuation in interest rates is offset by rather conservative actuarial assumptions in respect of discount rates. The Group does not identify the unusual, specific business plan or risk, as well as any significant risk concentrations. The Group performs sensitivity analysis calculating whole defined benefit obligation in different actuarial assumptions and comparing the results. There are no changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation is about 6 years at both reporting dates.

The key actuarial assumptions used to determine benefit obligations were as follows as of December 31, 2015, 2014 and January 1, 2014:

	December 31, 2015	December 31, 2014	January 1, 2014
Discount rate			
Russian entities	9.70%	11.50%	7.90%
German entities	1.93%	1.60%	3.20%
Ukrainian entity	varying from 9.6% to 8%	varying from 9.6% to 8%	10.00%
Austrian entities	2.0%	2.50%	3.50%
Inflation rates			
Russian entities	5.80%	6.50%	5.00%
Ukrainian entity	7.60%	7.60%	5.30%
Expected return on plan assets			
Austrian entities	1.74%	6.70%	4.32%
Rate of compensation increase			
Russian entities	7.10%	8.90%	6.58%
German entities	4.00%	4.00%	4.00%
Ukrainian entity	10.60%	10.60%	5.30%
Austrian entities	2.25%	2.25%	2.50%

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

The results of sensitivity analysis of pension benefit obligation for the Russian and Ukrainian entities as of December 31, 2015, 2014 and January 1, 2014 are presented below:

	Impact on defined benefit obligation		
	2015	**2014**	**2013**
Discount rate			
1% increase	-6.98%	-4.96%	-5.89%
1% decrease	6.20%	5.89%	6.67%
Inflation rate			
1% increase	3.40%	2.73%	1.89%
1% decrease	-4.65%	-2.54%	-1.79%
Rate of compensation increase			
1% increase	2.18%	2.99%	4.12%
1% decrease	-4.09%	-2.69%	-3.65%
Turnover rate			
3% increase	-4.65%	-3.93%	-5.36%
3% decrease	4.27%	6.21%	7.19%

The results of sensitivity analysis of pension benefit obligation for Austrian entities as of December 31, 2015 and 2014 and January 1, 2014 are presented below:

	Impact on defined benefit obligation		
	2015	**2014**	**2013**
Discount rate			
1% increase	-9.90%	-9.90%	-9.90%
1% decrease	11.90%	11.90%	11.90%

The results of sensitivity analysis of pension benefit obligation for German entities as of December 31, 2015 and 2014 and January 1, 2014 are presented below:

	Impact on defined benefit obligation		
	2015	**2014**	**2013**
Discount rate			
1% increase	-12.00%	-12.00%	-12.00%
1% decrease	18.00%	18.00%	18.00%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumption constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculation the recognised pension liability.

The following payments are expected contributions to the defined benefit plan in the future years:

	December 31, 2015
Within the next 12 months (next annual reporting period)	1,120
Between 2 and 5 years	1,509
Between 5 and 10 years	1,422
Beyond 10 years	511
Total expected payments	**4,562**

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

(b) Other post-retirement benefit obligations

Changes in the present value of the other post-retirement benefit obligations for 2014 are, as follows:

	Other post-retirement benefit obligations
January 1, 2014	**(1,610)**
Current service cost	(31)
Net interest expense	(89)
Sub-total included in profit or loss pf discontinued operations	(120)
Benefit paid	55
Other post-retirement benefit obligations reclassified to liabilities held for sale	2,952
Exchange difference	(1,151)
Actuarial changes arising from changes in financial assumptions	(126)
Sub-total included in OCI	(1,277)
December 31, 2014	–

Amounts of the other post-retirement benefit obligations recognized in the consolidated statement of the financial position were RUB 54 million within current liabilities and RUB 1,556 million within non-current liabilities.

The key actuarial assumptions used to determine other post-retirement benefit obligations were as follows as of December 31, 2014 and January 1, 2014:

	December 31, 2014	**January 1, 2014**
Discount rate	4.41%	5.37%
Health care cost trend rate	8.00% for Pre-65 Medical and 7.00% for Post-65 Medical	8.50% for Pre-65 Medical and 7.25% for Post-65 Medical
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2022	2021 for Pre-65 Medical and 2019 for Post-65 Medical

The results of sensitivity analysis of other post-retirement benefit obligations as of December 31, 2014 and January 1, 2014 are presented below:

	Impact on other post-retirement benefit obligation	
	2014	**2013**
Health care rate		
1% increase	20.40%	19.00%
1% decrease	-15.80%	-14.80%

25. Other taxes

	December 31, 2015	**December 31, 2014**	**January 1, 2014**
Other taxes payable			
VAT payable	2,364	3,282	2,139
Payroll taxes	3,622	3,502	3,256
Property tax	696	1,632	534
Mineral extraction tax	172	168	576
Land tax	557	541	376
Land lease	478	395	273
Other	145	127	286
Total	**8,034**	**9,647**	**7,440**

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

26. Issued capital and reserves

Common shares

The capital stock of Mechel PAO consists of 416,270,745 common shares, each with a nominal value of 10 Russian rubles, all of which are fully paid, issued and outstanding under the Russian law. The Group is authorized to issue an additional 81,698,341 common shares with a nominal value of 10 Russian rubles each.

Preferred shares

On April 30, 2008, Mechel's Extraordinary Shareholders' Meeting adopted changes to its Charter, authorizing up to 138,756,915 preferred shares with a nominal value of 10 Russian rubles each (representing 25% of the Mechel PAO's share capital). Under the Russian law and the Mechel PAO's Charter, these stocks are non-cumulative and have no voting rights, unless dividends are not paid in the year. The dividend yield is also fixed by the Charter and amounts to 0.2% of Mechel's consolidated net income per 1% of preferred stocks issued.

Distributions made and proposed

In accordance with applicable legislation, Mechel and its subsidiaries can distribute all profits as dividends or transfer them to reserves. Dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the statutory financial statements of both Russian and foreign Group's subsidiaries. Dividends from Russian companies are generally subject to a 13% withholding tax for residents (9% for the periods prior to 2015) and 15% for non-residents, which could be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

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

On June 30, 2015, one of the Group's subsidiaries declared a dividend of RUB 380 thousand and Mechel declared a dividend of RUB 4,163 thousand to the holders of preferred shares for 2014. The dividends declared for 2014 were fully paid to the shareholders during the year ended December 31, 2015.

On June 30, 2014, one of the Group's subsidiaries declared a dividend of RUB 1,670 thousand and Mechel declared a dividend of RUB 4,163 thousand to the holders of preferred shares for 2013. The dividends declared for 2013 were partially paid to the shareholders in the amount of RUB 870 thousand as of December 31, 2014.

Additional-paid-in-capital

In 2015, additional-paid-in-capital was increased by RUB 2,730 million due to the acquisition of non-controlling interests of 0.04%, 0.39% and 22.95% in certain Group's subsidiaries with the carrying value of RUB 2,842 million.

Earnings (loss) per share (EPS)

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

	2015	**2014**
Net loss from continuing operations	(115,450)	(122,265)
Less: net income from continuing operations attributable to non-controlling interests	458	(1,564)
Net loss attributable to ordinary equity holders from continuing operations	**(115,908)**	**(120,701)**
Net loss from discontinued operations	822	(11,702)
Less: net income from discontinued operations attributable to non-controlling interests	77	301
Net profit (loss) attributable to ordinary equity holders from discontinued operations	**745**	**(12,003)**
Loss attributable to ordinary equity holders	**(115,163)**	**(132,704)**

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

There were no dilutive securities issued as of December 31, 2015, 2014 and January 1, 2014.

	2015	**2014**
(Loss) profit per share total (Russian rubles per share)	**(276.65)**	**(318.79)**
Including:		
from continuing operations (Russian rubles per share)	(278.44)	(289.96)
from discontinued operations (Russian rubles per share)	1.79	(28.83)

27. Other income/expenses

27.1 Administrative and other operating expenses

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

	2015	**2014**
Wages, salaries and social security costs	8,287	7,637
Office expenses	1,333	1,274
Pension costs	1,095	885
Movement in provision for legal claims	996	656
Loss from disposal of property, plant and equipment	806	524
Depreciation	690	1,033
Audit and consulting services	570	625
Consumables	437	432
Social expenses	387	444
Rent	259	242
Fines and penalties related to business contracts	236	275
Write off of accounts receivable	247	185
Banking charges and services	168	222
Business trips	165	154
Other	1,624	1,727
Total	**17,300**	**16,315**

27.2 Employee benefits expense

Employee benefits expenses are comprised of the following:

	2015	**2014**
Included in cost of sales		
Wages and salaries	19,867	20,083
Social security costs	1,814	1,953
Pension costs	4,367	4,378
Post-employment benefits other than pensions	157	146
Included in selling and distribution expenses		
Wages and salaries	3,966	3,928
Social security costs	614	504
Pension costs	410	359
Post-employment benefits other than pensions	–	1
Included in administrative and other operating expenses		
Wages and salaries	7,631	6,976
Social security costs	656	661
Pension costs	1,095	885
Total	**40,577**	**39,874**

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

27.3 Other operating income

Other operating income is comprised of the following:

	2015	2014
Curtailment gain and past service costs	142	58
Revision in estimated cash flows of rehabilitation provision	47	236
Other operating income	–	557
Total	**189**	**851**

Revision in estimated cash flows of rehabilitation provision relates to changes in the discount rate, in the planned volumes of works, change in costs of rehabilitation expenses and other reasons.

In 2015, the Group recognised curtailment gain on DEMP pension obligations due to mass layoffs of employees and decrease in salaries conditioned by the situation in Ukraine. In 2014, the Group recorded effect of defined benefits plans amendments at BMP and SKCC.

27.4 Finance income

Finance income is comprised of the following:

	2015	2014
Interest income from investments	134	98
Income from the discounting of financial instruments	49	9
Total	**183**	**107**

27.5 Finance costs

Finance costs are comprised of the following:

	2015	2014
Interest on loans and borrowings	(38,664)	(23,758)
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	(18,525)	(1,516)
Finance charges payable under finance leases	(1,673)	(1,816)
Fines and penalties on overdue finance leases	(642)	(313)
Total interest expenses	**(59,504)**	**(27,403)**
Interest expenses under pension liabilities	(400)	(297)
Expenses related to discounting of financial instruments	(175)	(154)
Accretion expense	(373)	(256)
Total	**(60,452)**	**(28,110)**

The interest on loans and borrowings includes fines and penalties on overdue loans and borrowing payments and overdue interest payments of RUB 18,525 million and RUB 1,516 million for 2015 and 2014, respectively. The finance charges payable under finance leases includes fines and penalties on overdue finance lease payments of RUB 642 million and RUB 313 million for 2015 and 2014, respectively.

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

27.6 Other income and other expenses

Other income is comprised of the following:

	2015	2014
Gain on accounts payable with expired legal term	222	37
Gain from sale of scrap materials	185	20
Dividends received	8	–
Gain on sale of investments in equity securities	–	483
Gain on sales and purchases of foreign currencies	–	143
Other income	111	1
Total	**526**	**684**

Other expenses are comprised of the following:

	2015	2014
Loss on sales and purchases of foreign currencies	(273)	–
Loss on securities repurchase agreement	–	(1,297)
Loss from disposal of subsidiaries	(19)	(89)
Other expenses	(55)	(100)
Total	**(347)**	**(1,486)**

In 2014, the Group recognised a loss of RUB 1,297 million related to the failure of counterparty to a securities repurchase agreement to return certain securities to the Group.

Gain on sale of investments occurred as a result of disposal of investments in equity securities to third parties in 2015 and 2014. Gain on accounts payable with expired legal term constitutes gain on the write-off of payable amounts that were written-off due to legal liquidation of the creditors or expiration of the statute of limitation.

28. Segment information

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

- Steel segment, comprising production and sales of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, value-added downstream metal products, including forgings, stampings, and hardware, ferrosilicon;
- Mining segment, comprising production and sales of coal (coking and steam) and middlings, coke and chemical products, and iron ore, which supplies raw materials to the Steel and Power segments and also sells substantial amounts of raw materials to third parties;
- Power segment, comprising generation and sales of electricity and heat power, which supplies electricity and heat power to the Steel and Mining segments and also sells a portion of electricity and heat power to third parties.

These segments are combinations of subsidiaries and have separate management teams and offer different products and services.

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

The above three segments meet criteria for reportable segments. No operating segments have been aggregated to form the above reportable operating segments. Subsidiaries are consolidated by the segment to which they belong based on their products and by which they are managed. The Group's management evaluates performance of the segments based on segment revenues, gross margin and operating income (loss). Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. The accounting policies used by the Group in reporting segments internally are the same as those used for preparation of consolidated financial statement and in the respective quantitative and qualitative notes of the financial statements therefore no reconciliation between segment information and consolidated assets, liabilities and operating results is performed.

Year ended December 31, 2015	**Mining**	**Steel**	**Energy**	**Adjustments and eliminations**	**Consolidated**
Revenues from external customers	80,632	146,032	26,477	–	**253,141**
Inter-segment revenues	28,091	6,972	14,990	(50,053)	**–**
Gross profit	57,442	33,395	11,288	(318)	**101,807**
Gross margin, %	52.8	21.8	27.2	–	**40.2**
Depreciation, depletion and amortization	9,106	4,651	328	–	**14,085**
Loss on write-off of property, plant and equipment	199	492	–	–	**691**
Impairment of goodwill and non-current assets	–	(16)	(1,444)	–	**(1,460)**
Operating profit	15,895	8,456	35	(318)	**24,068**
Finance income	142	38	3	–	**183**
Intersegment finance income	887	307	53	–	**1,247**
Finance cost	(33,656)	(24,767)	(2,029)	–	**(60,452)**
Intersegment finance cost	(225)	(878)	(144)	–	**(1,247)**
Profit (loss) after tax for the year from discontinued operations, net	764	87	(29)	–	**822**
Loss for the year	(71,563)	(40,626)	(2,121)	(318)	**(114,628)**
Segment assets	217,393	113,985	10,694	–	**342,072**
Segment liabilities	375,153	216,771	12,002	–	**603,926**
Investments in associates	284	–	–	–	**284**
Goodwill	14,367	3,603	3,408	–	**21,378**
Capital expenditures	4,971	520	486	–	**5,977**
Income tax (expense) benefit	(5,630)	(2,795)	103	–	**(8,322)**

Year ended December 31, 2014	**Mining**	**Steel**	**Energy**	**Adjustments and eliminations**	**Consolidated**
Revenues from external customers	79,509	138,660	25,823	–	**243,992**
Inter-segment revenues	21,049	8,207	13,731	(42,987)	**–**
Gross profit	49,123	31,382	10,339	91	**90,935**
Gross margin, %	48.9	21.4	26.1	–	**37.3**
Depreciation, depletion and amortization	8,747	5,391	291	–	**14,429**
Loss on write-off of property, plant and equipment	309	242	110	–	**661**
Impairment of goodwill and non-current assets	(19)	8,015	–	–	**7,996**
Operating profit (loss)	1,718	(1,346)	424	91	**887**
Income (loss) from associates	14	(7)	–	–	**7**
Finance income	74	32	1	–	**107**
Intersegment finance income	704	358	46	–	**1,108**
Finance cost	(14,852)	(12,296)	(962)	–	**(28,110)**
Intersegment finance cost	(183)	(679)	(246)	–	**(1,108)**
Profit (loss) after tax for the year from discontinued operations, net	(13,141)	1,468	(29)	–	**(11,702)**
Loss for the year	(87,758)	(45,765)	(535)	91	**(133,967)**
Segment assets	239,501	117,581	12,176	–	**369,258**
Assets of disposal group classified as held for sale	8,696	–	–	–	**8,696**
Segment liabilities	312,417	187,776	15,478	–	**515,671**
Investments in associates	274	–	–	–	**274**
Goodwill	14,367	3,477	4,853	–	**22,697**
Capital expenditures	13,117	3,089	300	–	**16,506**
Income tax benefit	8,435	374	13	–	**8,822**

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

Balances as of January 1, 2014	Mining	Steel	Energy	Consolidated
Segment assets	237,333	143,518	12,243	**393,094**
Segment liabilities	217,361	176,157	13,064	**406,582**
Investments in associates	244	7	–	**251**
Goodwill	14,367	3,300	4,853	**22,520**

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

	2015	2014
Domestic		
Russia	146,701	141,096
Other	20,817	19,488
Total	**167,518**	**160,584**
Export	85,623	83,408
Total revenue	**253,141**	**243,992**

Allocation of total revenue by country is based on the location of the customer. The Group's total revenues from external customers by geographic area for the last two fiscal years were as follows:

	2015	2014
Russia	146,754	141,179
Asia	40,119	41,177
Europe	39,019	34,233
CIS	20,231	21,837
Middle East	4,222	3,596
USA	581	531
Other regions	2,215	1,439
Total	**253,141**	**243,992**

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

	December 31, 2015	December 31, 2014	January 1, 2014
Russia	250,868	261,269	262,422
Germany	2,051	1,851	1,549
Austria	780	705	832
Czech Republic	285	239	187
Romania	266	241	343
CIS	25	21	1,665
Switzerland/Liechtenstein	9	8	6
USA	–	–	10,701
Other	77	87	275
Total	**254,361**	**264,421**	**277,980**

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

Because of the significant number of customers, there are no individual external customers that generate sales greater than 10% of the Group's consolidated total revenue.

The following table presents the breakdown the Group's revenues from external customers by major products:

	2015	2014
Mining segment		
Coal and middlings	64,186	62,385
Coke and chemical products	11,756	10,849
Iron ore concentrate	1,844	4,011
Other	2,846	2,264
Total	**80,632**	**79,509**
Steel segment		
Long steel products	73,853	71,064
Hardware	23,443	22,396
Flat steel products	17,490	14,646
Forgings and stampings	12,166	11,843
Semi-finished steel products	5,027	2,834
Ferrosilicon	3,528	2,713
Steel pipes	3,308	3,391
Other	7,217	9,773
Total	**146,032**	**138,660**
Power segment		
Electricity	24,524	23,628
Other	1,953	2,195
Total	**26,477**	**25,823**
Total revenue	**253,141**	**243,992**

29. Commitments and contingencies

Commitments

In the course of carrying out its operations and other activities, the Group and its subsidiaries enter into various agreements, which would require the Group to invest in or provide financing to specific projects or undertakings. In management's opinion, these commitments are entered into under standard terms, which are representative of each specific project's potential and should not result in an unreasonable loss.

As of December 31, 2015, the total Group's contractual commitments to acquire property, plant and equipment amounted to RUB 23,231 million. Included in the commitments related to acquisition of property, plant and equipment are amounts arising from various purchase agreements in respect of railway and related infrastructure facilities construction for the Elga project. The total amount of remaining commitments under the construction contracts as of December 31, 2015 is equal to RUB 19,890 million.

Operating lease commitments

The Group has entered into operating property and land leases with lease terms between 2015 and 2065 years. Property and land lease expenses amounted to RUB 1,792 million and RUB 1,628 million for the years ended December 31, 2015 and 2014, respectively. Future minimum rentals payable under non-cancellable operating leases as of December 31, 2015 are, as follows:

	December 31, 2015
Within one year	1,798
After one year but not more than five years	6,943
More than five years	50,466
Total rental payable	**59,207**

The Group does not sublease the property leased under operating lease agreements.

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

Finance lease commitments

The Group has finance leases for various items of plant and machinery. The Group's obligations under finance leases are not secured. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Minimum payments			**Present value of payments**		
	December 31, 2015	**December 31, 2014**	**January 1, 2014**	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
Payable in 1 year	17,004	20,317	14,480	13,507	15,213	10,809
Payable in 2 years	360	107	2,217	304	98	1,925
Payable in 3 years	169	37	864	157	33	770
Payable in 4 years	20	15	253	19	15	224
Payable in 5 years and thereafter	1	–	57	1	–	54
Total minimum lease payment	**17,553**	**20,476**	**17,871**	**13,988**	**15,359**	**13,782**
Less amounts representing finance charges	(3,565)	(5,117)	(4,089)	–	–	–
Present value of finance lease liabilities	**13,988**	**15,359**	**13,782**	**13,988**	**15,359**	**13,782**
Current portion of finance lease liabilities				13,507	15,213	10,809
Non-current portion of finance lease liabilities				481	146	2,973

The discount rate used for the calculation of the present value of minimum lease payments equals the implicit rate for the lessor and varies on different groups of equipment from 10.4% p.a. to 13.2% p.a. (U.S. dollar-denominated contracts), from 7.6% p.a. to 22.9% p.a. (Euro-denominated contracts) and from 5.3% p.a. to 26.1% p.a. (Russian ruble-denominated contracts). Interest expense charged to the statements of profit (loss) in 2015 and 2014 amounted to RUB 1,673 million and RUB 2,002 million, respectively.

The Group's finance lease contracts contain a number of covenants and restrictions, which include, but are not limited to, compliance with payment schedule and certain cross-default provisions. As of December 31, 2015, the Group was not in compliance with all major Group's restrictive covenants. There was also a breach of restrictive covenants on overdue principal amount of RUB 3,523 million as of December 31, 2015. As a result, the long-term finance lease liability of RUB 7,748 million was reclassified to short-term finance lease liabilities due to covenant violations as of December 31, 2015.

The total amount of commitments under the signed lease contracts as of December 31, 2015 is equal to RUB nil.

Contingencies

Legal claim contingency

The Group's business activities expose it to a variety of lawsuits and claims which are monitored, assessed and contested on the ongoing basis. Where management believes that a lawsuit or another claim would result in the outflow of the economic benefits for the Group, a best estimate of such outflow is included in provisions in the consolidated financial statements (Note 23).

As of December 31, 2015, the management assesses the outflow as possible for the claims of Minmetals Engineering Co. Ltd and an individual to the Group. Minmetals Engineering Co. Ltd sued CMP for work performed of $46,000 thousand (RUB 3,383 million at exchange rate as of December 31, 2015), compensation of expenses due to change of technical task of $87,000 thousand (RUB 6,348 million at exchange rate as of December 31, 2015), compensation due to increased volume of work of RUB 299 million, payment for the temporary workshop of $2,200 thousand (RUB 160 million at exchange rate as of December 31, 2015) and compensation for lost property of $1,000 thousand (RUB 73 million at exchange rate as of December 31, 2015). CMP issued a claim to Minmetals Engineering Co.Ltd in the amount of $56,000 thousand (RUB 4,099 million at exchange rate as of December 31, 2015). The individual sued to the court in order to oblige PAO Mechel to execute the sale agreement for 1,999 shares of DAVEZE LIMITED and to recognize the rights of plaintiff for these shares. The amount of an outflow of resources embodying economic benefits for this claim cannot be measured reliably.

Guarantees

As of December 31, 2015, the Group guaranteed the fulfillment of obligations to third parties for the total amount of RUB 56 million. These guarantees are given by the Group under promissory notes, which were transferred by endorsement.

Environmental

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

The Group estimated the total amount of capital investments to address environmental concerns at its various subsidiaries at RUB 644 million as of December 31, 2015. These amounts are not accrued in the consolidated financial statements until actual capital investments are made.

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

Taxation

The Group is subject to taxation to the largest extent in Russia, and secondarily in other jurisdictions. The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that tax authorities are taking more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of the taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

In Russia, generally tax declarations remain open and subject to inspection for a period of three years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

In other tax jurisdictions where the Group conducts operations or holds shares, taxes are generally charged on the income arising in that jurisdiction. In some jurisdictions agreements to avoid double taxation are signed between different jurisdictions; however, the risk of additional taxation exists, especially in respect of certain domiciles where some of the Group entities are located and which are considered to be tax havens.

The Russian transfer pricing legislation, which came into force on January 1 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUB 2,000 million in 2013 and RUB 1,000 million since 2014. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognised in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Asser*, the Group accrued RUB 480 million, RUB 620 million and RUB 548 million of other tax claims that management believes are probable, as of December 31, 2015, 2014 and January 1, 2014, respectively. In addition, income tax accrual was made under IAS 12 *Income Taxes* (Note 21).

As of December 31, 2015, the Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be materially misstated or misleading.

Possible liabilities, which were identified by management as those that can be subject to different interpretations of the tax law and regulations are not accrued in the consolidated financial statements. The amount of such liabilities was RUB nil, RUB 2,010 million and RUB 1,080 million as of December 31, 2015, 2014 and January 1, 2014, respectively.

30. Events after the reporting period

The Group evaluated subsequent events for these consolidated financial statements through the date when the financial statements were issued, May 13, 2016.

Option for acquisition of a stake in the Elga coal complex

On April 1, 2016, the Group signed option agreements with Gazprombank providing the bank with the option to acquire a 49% stake in the Elga coal complex for a total consideration of RUB 34,300 million. According to these agreements, the Group is obliged to sell to Gazprombank upon its request and not later than June 30, 2016, a 49% stake in Elgaugol OOO, the owner of the subsoil license for the Elga coal deposit, a 49% stake in Elga-doroga OOO, the owner of the Ulak-Elga rail line which had been contributed to the registered capital of this newly established company in March 2016, a 49% stake in Mecheltrans Vostok OOO, the rail line's transport operator (collectively, the "target companies").

Proceeds from the sale of these stakes will be used for repayment of debt of SKCC assigned from Sberbank to Gazprombank (or their respective assignees) in the amount of RUB 31,500 million ($423,091 thousand or RUB 28,400 million at exchange rate as of April 12, 2016 and RUB 3,100 million), and remaining amount – for repayment to Sberbank and/or Sberbank Leasing.

The agreements also include joint coordination of management over the Elga coal complex. Gazprombank will have a put option to sell its stakes (in full or in part) in the Elga coal complex within three years following a five-year period or in case of a breach of conditions stipulated by such agreement. Put options are signed by Yakutugol and Mechel-Trans OOO (sellers of the stakes in target companies) and will be guaranteed by Mechel Mining OAO, SKCC and Mechel Coke. If the Group fails to perform under these put options Gazprombank will have the right to buy out (call option) the remaining stakes owned by the Group in the target companies and a 100% stake in Mechel Port Vanino. A 1.99% stake in each of the target companies will be pledged in favor of Gazprombank as a security for the call option.

As of the date hereof Gazprombank has not requested the execution of the sale-purchase agreement under the option agreements and the stakes of the target companies have not been transferred to the bank.

Following the assignment of the Group's debt from Sberbank to Gazprombank in April 2016, the Group signed settlement agreements with the latter to convert the $423,091 thousand debt into RUB 28,400 million debt and to extend the maturities of such loans till June 30, 2016.

Restructuring agreements with Sberbank

The Group signed amendment agreements and amicable settlement agreements with Sberbank for the existing debts restructuring of CMP of RUB 27,430 million, Izhstal of RUB 564 million, BFP of RUB 650 million, Yakutugol of RUB 48 million, Korshunov Mining Plant (KMP) of RUB 35 million, Mechel Trading of $100,000 thousand (RUB 7,288 million at exchange rate as of December 31, 2015), and SKCC of $254,890 thousand (RUB 18,577 million at exchange rate as of December 31, 2015) during February-April 2016. Restructuring of CMP debt of RUB 6,761 million is agreed and subject to the court approval of the amicable settlement agreements. Amendment agreements and amicable settlement agreements grant a grace period until April 2017 and extend the final maturity until April 2020, waive all previous defaults (including but not limited to acceleration of repayments), provide new interest rates and partial capitalization of interest, as well as new levels of financial covenants. The grace period will be extended until January 2020 and the final maturity − until April 2022, if similar terms for the grace period and interest rate are reached with VTB and other conditions have been fulfilled. Upon restructuring, overdue interest in the amount of RUB 3,600 million are capitalized and fines and penalties in the amount of RUB 1,059 million are waived. The amendment agreements became effective upon signing; however, failure to comply with certain terms will lead to their termination.

In December 2015 and the beginning of 2016, the Group signed settlement agreements with Sberbank Leasing AO which waived previous defaults and restructured future payment schedules. The settlement agreements will become effective upon approval by the court which is ongoing.

Restructuring agreements with Gazprombank

In January 2016, part of Gazprombank debt, in particular $400,000 thousand (RUB 29,153 million at exchange rate as of December 31, 2015) and $200,000 thousand (RUB 14,576 million at exchange rate as of December 31, 2015) credit facilities for SKCC and $385,777 thousand (RUB 28,059 million at exchange rate as of December 31, 2015) and $300,000 thousand (RUB 21,856 million at exchange rate as of December 31, 2015) credit facilities for Yakutugol were converted into rubles. In March 2016, Yakutugol's loan from Gazprombank in the amount of $103,100 thousand (RUB 7,515 million at exchange rate as of December 31, 2015) was also converted into rubles. Restructuring of these credit facilities became effective in January and March 2016 providing for an extension of the grace period until April 2020 and the final maturity until April 2022. Interest rate under restructured agreements is set at the level of the Central Bank of Russia rate plus 1.5% (subject to increase to 3.5% if certain conditions are not met). Waiving of fines and penalties in the amount of RUB 6,026 million is subject to fulfilment of certain conditions. In March 2016, the Elga railway and related infrastructure facilities were pledged to Gazprombank under the credit facilities at the value of RUB 81,772 million as of December 31, 2015.

In March 2016, the restructuring under overdraft facilities of CMP and Mechel Service has become effective.

Other

The Group signed restructuring agreements with Uralsib bank which granted extended repayments of the Group's debt of RUB 3,280 million till December 30, 2019, new tranches of RUB 1,000 million, waived all previous defaults, new interest rates, the grace period for interest repayment till December 31, 2016.