CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2017

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Mechel PAO

Opinion on the Financial Statements

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, 2017 and 2016, and the related consolidated statements of profit (loss) and other comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of December 31, 2017, 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 April 5, 2018 expressed an unqualified opinion thereon.

The Group's Ability to Continue as a Going Concern

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 consolidated 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, and has stated that substantial doubt exists 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 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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 are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

A member firm of Ernst & Young Global Limited

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLC

We have served as the Group's auditor since 2003.
Moscow, Russia

April 5, 2018

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)
for the year ended December 31, 2017

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

	Notes	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Continuing operations				
Revenue	26	299,113	276,009	253,141
Cost of sales		(160,356)	(146,322)	(151,334)
Gross profit	26	**138,757**	**129,687**	**101,807**
Selling and distribution expenses		(55,686)	(56,233)	(51,117)
Loss on write-off of non-current assets		(321)	(1,953)	(691)
Impairment of goodwill and other non-current assets	18	(6,081)	(5,202)	(1,460)
Provision for doubtful accounts	13	(332)	(758)	(1,507)
Taxes other than income taxes		(4,967)	(5,913)	(5,853)
Administrative and other operating expenses	25.1	(15,590)	(18,791)	(17,300)
Other operating income	25.3	1,387	1,853	373
Total selling, distribution and operating income and (expenses), net		**(81,590)**	**(86,997)**	**(77,555)**
Operating profit		**57,167**	**42,690**	**24,252**
Finance income	25.4	633	1,176	183
Finance costs including fines and penalties on overdue loans and borrowings and finance leases payments of RUB 1,161 million, RUB 6,013 million and RUB 19,167 million for the periods ended December 31, 2017, 2016 and 2015, respectively	25.5	(47,610)	(54,240)	(60,452)
Foreign exchange gain (loss), net		4,237	25,947	(71,106)
Share of profit (loss) of associates, net	8	18	(17)	–
Other income	25.6	1,495	598	342
Other expenses	25.6	(220)	(2,003)	(347)
Total other income and (expense), net		**(41,447)**	**(28,539)**	**(131,380)**
Profit (loss) before tax from continuing operations		**15,720**	**14,151**	**(107,128)**
Income tax expense	20	(3,150)	(4,893)	(8,322)
Profit (loss) for the year from continuing operations		**12,570**	**9,258**	**(115,450)**
Discontinued operations				
(Loss) profit after tax for the year from discontinued operations, net		–	(426)	822
Profit (loss) for the year		**12,570**	**8,832**	**(114,628)**
Attributable to:				
Equity shareholders of Mechel PAO		11,557	7,126	(115,163)
Non-controlling interests		1,013	1,706	535

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, 2017

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

	Notes	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of income tax:		*313*	*430*	*295*
Exchange differences on translation of foreign operations		313	431	287
Net (loss) gain on available for sale financial assets		–	(1)	8
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods, net of income tax:		*145*	*(23)*	*(194)*
Re-measurement of defined benefit plans	22	145	(23)	(194)
Other comprehensive income for the year, net of tax		**458**	**407**	**101**
Total comprehensive income (loss) for the year, net of tax		**13,028**	**9,239**	**(114,527)**
Attributable to:				
Equity shareholders of Mechel PAO		12,012	7,529	(115,064)
Non-controlling interests		1,016	1,710	537
Earnings (loss) per share				
Weighted average number of common shares	24	416,270,745	416,270,745	416,270,745
Basic and diluted, profit (loss) for the year attributable to common equity shareholders of Mechel PAO	24	27.76	17.12	(276.65)
Earnings (loss) per share from continuing operations (Russian rubles per share), basic and diluted	24	27.76	17.99	(278.44)
(Loss) earnings per share from discontinued operations (Russian rubles per share)	24	–	(0.87)	1.79

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2017

(All amounts are in millions of Russian rubles)

	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets			
Inventories	12	37,990	35,227
Income tax receivables		107	686
Trade and other receivables	13	18,762	19,054
Other current assets	14	7,589	6,942
Other current financial assets		562	167
Cash and cash equivalents	15	2,452	1,689
Total current assets		**67,462**	**63,765**
Non-current assets			
Property, plant and equipment	16, 18	197,875	204,353
Mineral licenses	17	33,240	36,099
Goodwill and other intangible assets	17, 18	19,211	18,355
Investments in associates	8	283	265
Deferred tax assets	20	96	1,502
Other non-current assets	14	758	891
Non-current financial assets		202	235
Total non-current assets		**251,665**	**261,700**
Total assets		**319,127**	**325,465**
Equity and liabilities			
Current liabilities			
Interest-bearing loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 41,992 million and RUB 38,594 million as of December 31, 2017 and 2016, respectively	11.1	422,533	434,165
Trade and other payables	19	33,469	40,985
Finance lease liabilities	27	7,476	10,175
Income tax payable		4,578	2,552
Taxes and similar charges payable other than income tax	21	6,696	9,195
Advances received		4,385	3,815
Other current financial liabilities	11.5	734	–
Other current liabilities		69	19
Pension obligations	22	849	944
Provisions	23	3,359	3,496
Total current liabilities		**484,148**	**505,346**
Non-current liabilities			
Interest-bearing loans and borrowings	11.1	17,360	11,644
Finance lease liabilities	27	1,878	421
Income tax payable		–	540
Other non-current financial liabilities		40,916	36,740
Other non-current liabilities		138	159
Pension obligations	22	3,512	3,501
Provisions	23	3,814	3,420
Deferred tax liabilities	20	11,494	16,282
Total non-current liabilities		**79,112**	**72,707**
Total liabilities		**563,260**	**578,053**
Equity			
Common shares	24	4,163	4,163
Preferred shares	24	833	833
Additional paid-in capital	24	24,378	28,326
Accumulated other comprehensive income		1,303	848
Accumulated deficit		(283,743)	(294,444)
Equity attributable to equity shareholders of Mechel PAO		**(253,066)**	**(260,274)**
Non-controlling interests	6, 7	8,933	7,686
Total equity		**(244,133)**	**(252,588)**
Total equity and liabilities		**319,127**	**325,465**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2017

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

		Attributable to equity shareholders 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 interests	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	22	–	–	–	–	–	–	(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		–	–	–	–	–	–	(798)	**(798)**	–	**(798)**
Transfer of actuarial gains (losses) due to disposal of discontinued operations		–	–	–	–	–	(126)	126	**–**	–	**–**
Dividends declared to equity shareholders of Mechel PAO	24	–	–	–	–	–	(4)	–	**(4)**	–	**(4)**
Acquisition of non-controlling interests	6, 24	–	–	–	–	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 CHANGES IN EQUITY (continued)
for the year ended December 31, 2017

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

		Attributable to equity shareholders 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 interests	Total equity
As of January 1, 2016		**416,270,745**	**4,163**	**83,254,149**	**833**	**28,322**	**(301,565)**	**445**	**(267,802)**	**5,948**	**(261,854)**
Profit for the period		–	–	–	–	–	7,126	–	**7,126**	1,706	**8,832**
Other comprehensive income (loss)											
Net loss on available for sale financial assets		–	–	–	–	–	–	(1)	**(1)**	–	**(1)**
Re-measurement losses on defined benefit plans	22	–	–	–	–	–	–	(23)	**(23)**	–	**(23)**
Exchange differences on translation of foreign operations		–	–	–	–	–	–	427	**427**	4	**431**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**7,126**	**403**	**7,529**	**1,710**	**9,239**
Reversal of unclaimed declared dividends to non-controlling interest upon expiration of limitation period		–	–	–	–	–	–	–	**–**	35	**35**
Dividends declared to equity shareholders of Mechel PAO	24	–	–	–	–	–	(5)	–	**(5)**	–	**(5)**
Dividends declared to non-controlling interests	24	–	–	–	–	–	–	–	**–**	(3)	**(3)**
Acquisition of non-controlling interests	6, 24	–	–	–	–	4	–	–	**4**	(4)	**0**
As of December 31, 2016		**416,270,745**	**4,163**	**83,254,149**	**833**	**28,326**	**(294,444)**	**848**	**(260,274)**	**7,686**	**(252,588)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2017

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

		Attributable to equity shareholders 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 interests	Total equity
As of January 1, 2017		**416,270,745**	**4,163**	**83,254,149**	**833**	**28,326**	**(294,444)**	**848**	**(260,274)**	**7,686**	**(252,588)**
Profit for the period		–	–	–	–	–	11,557	–	**11,557**	**1,013**	**12,570**
Other comprehensive income (loss)											
Re-measurement losses on defined benefit plans	22	–	–	–	–	–	–	145	**145**	–	**145**
Exchange differences on translation of foreign operations		–	–	–	–	–	–	310	**310**	3	**313**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**11,557**	**455**	**12,012**	**1,016**	**13,028**
Dividends declared to equity shareholders of Mechel PAO	24	–	–	–	–	–	(856)	–	**(856)**	–	**(856)**
Dividends declared to non-controlling interests	24	–	–	–	–	–	–	–	**–**	(359)	**(359)**
Change in non-controlling interests	6, 24	–	–	–	–	(3,948)	–	–	**(3,948)**	590	**(3,358)**
As of December 31, 2017		**416,270,745**	**4,163**	**83,254,149**	**833**	**24,378**	**(283,743)**	**1,303**	**(253,066)**	**8,933**	**(244,133)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2017	2016	2015
Cash flows from operating activities				
Profit (loss) for the year		12,570	8,832	(114,628)
Less loss (profit) after tax for the year from discontinued operations, net		–	426	(822)
Profit (loss) for the year from continuing operations		12,570	9,258	(115,450)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:				
Depreciation		12,555	11,813	12,397
Depletion and amortisation		1,672	1,901	1,688
Foreign exchange (gain) loss, net		(4,237)	(25,947)	71,106
Deferred tax (income) expense	20	(3,401)	5,104	7,946
Provision for doubtful accounts	13, 14	332	758	1,507
Write-off of accounts receivable	25.1	109	113	247
Write-off of inventories to net realisable value	12	470	364	1,003
Revision in estimated cash flows of rehabilitation provision	25.3	–	(375)	(47)
Loss on write-off of non-current assets		321	1,953	691
Impairment of goodwill and other non-current assets	18	6,081	5,202	1,460
Loss on disposal of non-current assets		21	57	102
Gain on sale of investments	25.6	(2)	(186)	–
Gain on restructuring and forgiveness of accounts payable and write-off of accounts payable with expired legal term	25.6	(963)	(115)	(222)
Curtailment and remeasurement of pension obligations	25.3	(175)	(325)	(142)
Pension service cost and actuarial loss, other related expenses	22	142	154	192
Finance income	25.4	(633)	(1,176)	(183)
Finance costs including fines and penalties on overdue loans and borrowings and finance leases payments of RUB 1,161 million, RUB 6,013 million and RUB 19,167 million for the periods ended December 31, 2017, 2016 and 2015, respectively	25.5	47,610	54,240	60,452
VEB commissions write-off	25.6	–	1,411	–
Gain on royalty and other proceeds associated with disposal of Bluestone	25.6	(474)	(121)	–
Provision for non-recoverable advances to pension funds	25.6	–	408	–
Other		281	51	480
Changes in working capital items:				
Trade and other receivables		(318)	(5,542)	4,597
Inventories		(4,508)	(1,070)	1,873
Trade and other payables		(3,435)	(4,259)	(8,125)
Advances received		625	588	(664)
Taxes payable and other liabilities		4,064	2,368	(1,465)
Other current assets		(895)	(883)	997
Income tax paid		(4,530)	(2,101)	(1,437)
Net operating cash flows from discontinued operations		–	(436)	(136)
Net cash provided by operating activities		**63,282**	**53,207**	**38,867**

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended December 31, 2017

(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2017	2016	2015
Cash flows from investing activities				
Proceeds from disposal of securities		–	–	143
Loans issued and other investments		(525)	(133)	(6)
Interest received		165	128	25
Royalty and other proceeds associated with disposal of Bluestone		474	103	101
Proceeds from disposal of subsidiaries, net of cash disposed		94	145	76
Purchases of available for sale securities		–	(4)	–
Proceeds from loans issued and other investments		144	31	15
Proceeds from disposals of property, plant and equipment		328	285	405
Purchases of property, plant and equipment		(6,460)	(4,742)	(5,076)
Purchases of intangible assets	17	(771)	–	–
Purchases of mineral licenses and other related payments		–	–	(71)
Interest paid, capitalized		(587)	(782)	(830)
Net cash used in investing activities		**(7,138)**	**(4,969)**	**(5,218)**
Cash flows from financing activities				
Proceeds from loans and borrowings		23,200	4,002	13,875
Repayment of loans and borrowings		(35,033)	(42,322)	(11,896)
Dividends paid to shareholders of Mechel PAO		(856)	(5)	(4)
Dividends paid to non-controlling interest		(122)	(2)	(1)
Interest paid, including fines and penalties		(31,948)	(33,872)	(28,910)
Acquisition of non-controlling interests in subsidiaries		(3,358)	–	(1)
Proceeds from sales of 49% stakes in Elga coal complex, with put-option granted	6	–	34,300	–
Repayment of obligations under finance lease		(3,513)	(3,238)	(2,677)
Deferred payments for acquisition of assets		(455)	–	–
Deferred consideration paid for the acquisition of subsidiaries in prior periods		(3,652)	(4,732)	(4,819)
Net cash used in financing activities		**(55,737)**	**(45,869)**	**(34,433)**
Effect of exchange rate changes on cash and cash equivalents		(637)	(1,807)	331
Net (decrease) increase in cash and cash equivalents		**(230)**	**562**	**(453)**
Cash and cash equivalents at beginning of period	15	1,689	3,079	4,074
Cash and cash equivalents, net of overdrafts at beginning of period	15	**1,453**	**891**	**1,344**
Cash and cash equivalents at end of period	15	2,452	1,689	3,079
Cash and cash equivalents, net of overdrafts at end of period	15	**1,223**	**1,453**	**891**

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"). 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 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, 2017
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	January 1999	99.1%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	December 2001	94.2%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 2002	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 2002	94.8%
Urals Stampings Plant (USP)	Russia	Steel products	April 2003	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	October 2003	90.0%
Mechel Nemunas (MN)	Lithuania	Steel products	October 2003	100.0%
Mechel Energo	Russia	Power generation and sale	February 2004	100.0%
Port Posiet	Russia	Transshipment	February 2004	97.8%
Izhstal	Russia	Steel products	May 2004	90.0%
Port Kambarka	Russia	Transshipment	April 2005	90.4%
Mechel Service	Russia	Trading	May 2005	100.0%
Mechel Coke	Russia	Coke production	June 2006	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	October 2006	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 2007	98.3%
Kuzbass Power Sales Company (KPSC)	Russia	Electricity distribution	June 2007	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferrosilicon production	August 2007	100.0%
Yakutugol	Russia	Coal mining	October 2007	100.0%
Port Temryuk	Russia	Transshipment	March 2008	100.0%
Mechel Carbon AG	Switzerland	Trading	April 2008	100.0%
HBL Holding GmbH (HBL)	Germany	Trading	September 2008	100.0%
Mechel Service Stahlhandel Austria GmbH and its subsidiaries	Austria	Trading	September 2012	100.0%
Elgaugol	Russia	Coal mining	August 2013	51.0%**
Elga-road	Russia	Railroad transportation	January 2016	51.0%**

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

** In 2016, the Group sold 49% stakes in Elgaugol and Elga-road to Gazprombank. Simultaneously with this transaction, the Group granted to Gazprombank a put option to sell 49% stakes in these companies to the Group. The transaction in fact represents a financial liability, and these entities are consolidated based on 100% ownership (Notes 6 and 11.4).

(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 (generation and transportation) and heat power generation), and conducts operations in Russia, 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 Group of steel, mining, ferroalloy and power companies. 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 operating cash flow and long term debt to finance major investment projects, focus on restructuring of the loan portfolio 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.

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 and other long-term benefits; (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; (10) accounting for financial instruments; (11) finance leases and (12) recording investments at fair value.

The consolidated financial statements of the Group comply with the Russian Federal Law No. 208 *On Consolidated Financial Statements* (Law “208-FZ”), which was adopted on July 27, 2010. The Law 208-FZ provides the legal basis for certain entities to prepare the financial statements in accordance with IFRS as issued by the IASB and subsequently endorsed for use in the Russian Federation. As of December 31, 2017, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia. 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 for the year ended December 31, 2017. 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 in 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 movements. 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 consolidated 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 investment in associate and its carrying value, and then recognises the loss as 'Share of profit (loss) of associates' in the consolidated statement of profit (loss) and other 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 the consolidated statement of profit (loss) and other 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 consolidated 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 consolidated 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 consolidated statement of profit (loss) and other comprehensive income (loss). Inflows from incidental and peripheral operations, net of related costs, are considered gains and are included in other operating income and 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 26), 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 consolidated 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 to comply with the Law 208-FZ. Russian rubles 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 and European subsidiaries of the Group are the Russian ruble and euro, respectively. The U.S. dollar is the functional currency of 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.

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, 2017**	**December 31, 2016**	**December 31, 2015**	**December 31, 2017**	**December 31, 2016**	**December 31, 2015**
U.S. dollar	57.60	60.66	72.88	58.35	67.03	60.96
Euro	68.87	63.81	79.70	65.90	74.23	67.78

(*) Exchange rates shown in Russian rubles for one 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 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 consolidated 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 consolidated statement of profit (loss) and other comprehensive income (loss).

(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 amortised under a unit of production basis over proved and probable reserves of the relevant area.

In order to calculate proved 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 proved 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 proved and probable reserves annually. This policy does not change the Group's approach to the measurement of proved and probable reserves as of their acquisition dates as part of business combinations that involve independent mining engineers. The Group's proved 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 adjusted for prices inflation 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 consolidated 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 proved 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.

As part of its surface mining operations, the Group incurs stripping costs both during the development phase and production phase of its operations. 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. In general case, the capitalization of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. Stripping costs undertaken during the production phase of mine are charged to profit and loss as cost of sales as incurred.

In some cases, the further development of a mine may require stripping operations, equivalent by scale to those that were incurred in the development phase of a mine. In such cases, production stripping costs are capitalized similarly to the capitalization of costs during the development phase of a mine.

Stripping costs incurred in the production phase are capitalized, if all of the following criteria according to IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* are satisfied:

(a) It is probable that the future economic benefit associated with the stripping activity will flow to the entity;

(b) The entity can identify the component of the ore body for which access has been improved;

(c) The costs relating to the stripping activity associated with that component can be measured reliably.

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 proved and probable mineral reserves that are expected to be mined during the estimated lives of the mines. Capitalized production stripping costs are also depleted using the unit-of-production method on a basis consistent with the mine production and reserves to which they relate. 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 direct 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 are depreciated using the straight-line method, apart from railway of the Elga coal deposit which is depreciated using the units of production method as discussed in (u) Significant accounting judgements, estimates and assumptions). 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 consolidated statement of profit (loss) and other 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 consolidated 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 consolidated 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 consolidated 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 amortised 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 consolidated 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 consolidated 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 consolidated statement of profit (loss) and other comprehensive income (loss). The losses arising from impairment are recognised in the consolidated 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 (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 to 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 consolidated 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 consolidated 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 consolidated 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.

Put Options Written on non-controlling interests

The Group initially measures a financial liability at the present value of the redemption amount in the parent's consolidated financial statements for written puts on non-controlling interests, therefore, when the Group grants non-controlling interests a put option to sell part or all of their interests in a subsidiary during a certain period, on the date of grant, the non-controlling interests are classified as a financial liability. The Group remeasures the financial liability at the end of each reporting period based on the estimated present value of the consideration to be transferred upon the exercise of the put option. The respective finance cost is recognised in the consolidated statement of profit (loss) and other comprehensive income (loss) within finance costs.

Call Options Written on preferred shares

In the consolidated financial statements the Group initially measures a financial liability for call options granted in respect of preferred shares at fair value. Determining the fair value of the call options at the recognition date is subject to judgment. The Group calculated the fair value of call options using mix of the Black-Scholes option pricing model and model of Asian options. The models require input of assumptions, including expected volatility, expected term, risk-free interest rate and dividend yield and other subjective assumptions. The Group remeasures the financial liability at the end of each reporting period at fair value. The respective finance cost or income is recognised in the consolidated statement of profit (loss) and other comprehensive income (loss) within finance costs or finance income.

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 consolidated 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 remeasured 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, 2017, 2016 and 2015, 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 amortisation 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 17.
- Impairment of goodwill and other non-current assets − Note 18.

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, 2017, the Group performed the impairment testing for the following number of CGUs by segments: Steel – 4, 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 proved and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by the Group's engineers.

Impairment losses of continuing operations are recognised in the consolidated statement of profit (loss) and other comprehensive income (loss).

For impaired 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 consolidated 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 consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original 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 consolidated statement of profit (loss) and other comprehensive income (loss), net of any reimbursment.

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 consolidated 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 consolidated statement of profit (loss) and other comprehensive income (loss) as part of finance costs.

For closed sites, changes to estimated rehabilitation costs are recognised immediately in the consolidated 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 and other long-term benefits 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 and other long-term benefits using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated 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 and other long-term benefits is calculated separately for each defined benefit plan and other long-term 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 other 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 consolidated financial statements, and the amounts of revenues and expenses recognised during the reporting period. Estimates and assumptions are continually evaluated and are based on the Group's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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.

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 commenced 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*.

DEMP property complex

On June 25, 2016, by the decree of the Council of Ministers of the self-proclaimed People's Republic of Donetsk, the State Enterprise "Yuzovsky metallurgical plant" was established on the basis of the property complex of the Group's subsidiary Donetsk Electrometallurgical Plant ("DEMP"). The Group's ability to manage and control the assets of the DEMP property complex is restricted by this decree. The Group concluded that the assets included in the DEMP's property complex do not meet the recognition criteria and derecognized these assets in the consolidated financial statements.

The DEMP's assets were fully impaired based on the results of impairment tests as of January 1, 2014 and December 31, 2014 due to conservation of production since 2013. The loss of control over the assets of nil carrying value has no impact on the financial result for the years ended December 31, 2016 and 2017.

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 20). Various factors are considered to assess the probability of the future utilization of deferred tax assets for individual subsidiaries and for the consolidated group of taxpayers, including past operating results, operational plans for not longer than five years as this term is considered reliable and accurate for forecast, same assumptions for operational plans as used for determination of the expected future cash flows from the cash generating units, financial plans based on historical data and expectation built on the debt portfolio, terms of the expiration of tax losses carried forward depending on respective tax legislation, and tax planning strategies based on changes in tax regulation for tax losses offsetting for 2018-2020. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the Group's financial position, results of operations and cash flows may be affected. In the event that the assessment of future utilization of deferred tax assets must be changed, this effect is recognised in the consolidated statement of profit (loss) and other comprehensive income (loss).

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the likelihood that the estimated taxable profit and taxable temporary differences will be sufficient to recover the asset in whole or in part.

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, changes in 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 18).

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 18.

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 consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models and other specific models. The inputs to these models are taken from observable markets where possible, but when these are not available, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as dividend yield, terms of redemption, 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 and other long-term benefit plans are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. More details are provided in Note 22.

Rehabilitation provisions

The Group reviews rehabilitation provisions at each reporting date and adjusts them to reflect the current best estimate. 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 16).

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 (Note 13).

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 12). 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));
- 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) Reclassifications

Certain reclassifications have been made to the prior periods' consolidated financial statements to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated statement of financial position, consolidated statement of profit (loss) and other comprehensive income (loss) and consolidated statement of cash flows and have no impact on net income or equity.

(w) New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are described below.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current and comparative periods in Note 15.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application did not affect the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual improvements 2014-2016 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments and improvements described above had no significant impact on the Group's financial position and performance of the Group or the disclosures in the consolidated financial statements.

Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are discussed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective.

Amendments to IAS 40 Transfers of Investment Property

The amendments effective January 1, 2018 clarify when an entity should transfer property, including property under construction or development into, or out of investment property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation effective January 1, 2018 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration.

Annual improvements to IFRS 2014-2016 cycle (issued in December 2016)

This annual improvements package amended two standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted, because they have now served their intended purpose.

IAS 28 Investments in Associates and Joint Ventures

The amendment clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments described above and effective January 1, 2018 had no significant impact on the Group's financial position and performance of the Group or the disclosures in the consolidated financial statements. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Group is in the process of assessing the impact of the adoption of the pronouncements listed below on the Group's consolidated financial statements:

IFRIC 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they are effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The final version of IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group does not expect a significant impact on its consolidated statement of financial position except for the effect of adjustments to amortised cost of the financial liability due to restructuring as discussed below.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. No reclassification for these instruments is required.

IFRS 9 does not require reclassification of the Group's financial liabilities (including interest-bearing loans and borrowings and other financial liabilities) compared to IAS 39. However, as of January 1, 2018, the Group plans to recalculate its estimates of the present value of the cash outflows under borrowings restructured before January 1, 2018 (for restructurings accounted for as debt modifications) using original effective interest rates as prescribed by IFRS 9. Under IAS 39, such modifications were accounted for at revised effective interest rates. As of January 1, 2018, these adjustments are expected to be recognized in the amount of RUB 2,062 million to increase interest-bearing loans and borrowings, and RUB 412 million to decrease deferred tax liabilities with the corresponding decrease of RUB 1,650 million recognized in accumulated deficit.

In summary, the impact of IFRS 9 adoption as of January 1, 2018 is expected to be as follows:

	Millions of Russian rubles
Liabilities	
Deferred tax liabilities	(412)
Interest-bearing loans and borrowings	2,062
Total liabilities	**1,650**
Net impact on equity, including	(1,650)
Accumulated deficit	**(1,650)**

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that, as of January 1, 2018, there is no significant impact of loss allowance on its consolidated statement of financial position.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard effective January 1, 2019 replaces the previous leases standard, IAS 17 *Leases*, and the related interpretations.

The Group plans to apply IFRS 16 starting from the respective effective date and to use the cumulative catch-up transition method in IFRS 16 when first applying the Standard. The Group is currently assessing the impact of the standard on the consolidated financial statements and expects a significant impact on its statement of financial position and equity.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard supersede IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under the current IFRS. The presentation requirements represent a significant change from current practice and increase the volume and level of details of disclosures required in the Group's consolidated financial statements. The Group expects to adopt the new standard from January 1, 2018 using full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

In preparing to adopt IFRS 15, the Group is considering the following:

(a) Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group does not expect that application of the constraint will result in more revenue being deferred than under current IFRS.

The Group provides rights of return based on poor quality of product. The Group has no history of significant returns due to higher transportation cost for sending product back to supplier. The Group concluded that, when it adopts IFRS 15, there would not be any significant adjustments based on future returns.

Certain steel and mining traders and producers of the Group provide retrospective volume rebates to its customers. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by customer. The Group applied the requirements of IFRS 15 on constraining estimates of variable consideration and concluded that no adjustments to reduce revenue from sale of goods due to volume rebates are required.

(b) Warranty obligations

The Group provides warranties to its customers under the Russian Federation Law requirements. These warranties represent assurance type warranties and do not require to provide any additional service to the Group's customers. This type of warranties will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, consistent with its current practice.

(c) Principal versus agent considerations

The Group is engaged into contracts, which include transportation, freight services. Under certain agreements, the Group is responsible for providing shipping services after the date at which control of the goods passes to the customer at the loading port or place. Under IAS 18, the Group recognises such shipping and other freight revenue and accrues the associated costs in full on loading whereas under IFRS 15, freight and transportation services are required to be accounted for as separate performance obligations with revenue recognised over time as the service is rendered. The railway transportation service inside Russia is provided by the carrier Russian Railways JSC. When control is transferred to the customer at a point when goods are accepted by the first carrier the Group will account for two separate performance obligations: the obligation to provide goods to the customer and the obligation to arrange the delivery (transportation, freight) of goods to the customer. In these contracts, the Group is not primarily responsible for fulfilling the promise to provide transportation and the Group acts as an agent. For agent services related to transportation of goods sold, when cost of transportation is included into the goods price, the revenue and selling expenses should be adjusted by approximately RUB 3,300 million for the year ended December 31, 2017 and recognised on a net basis.

(d) Presentation and disclosure requirements

The Group expects that the notes to the consolidated financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected due to significant judgements made when assessing the contracts if the Group conclude that it acts as an agent instead of a principal. Additionally, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

4. Going concern

The economic environment and economic conditions in the major segments of the Group's operations retain uncertainty about the level of demand for the Group's products, the pricing of major products mined or manufactured by the Group, operation and financial results, the availability of free cash flow for repayment or ability to refinance and restructure current liabilities.

As of December 31, 2017, the Group's total liabilities exceeded total assets by RUB 244,133 million.

In 2017, the Group finalized the debt restructuring of credit facilities with Gazprombank, Sberbank, VTB and Vnesheconombank (VEB) which represent the majority of the Group's credit portfolio. However, as of December 31, 2017, restructuring was not finalized with respect to the Group's credit facilities with the foreign banks and lenders such as pre-export facility creditors and ECA-covered loans creditors and therefore the Group was not in compliance with the payment schedules under certain credit facilities and a number of financial and non-financial covenants contained in the Group's loan agreements totaling to RUB 411,985 million. As of December 31, 2017, the Group's debt on demand was RUB 414,760 million, including RUB 284,156 million of long-term debt classified as short-term debt as no debt restructuring was finalized with respect to the Group's credit portfolio and cross-default provisions, and RUB 21,573 million of fines and penalties accrued on overdue debt 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, on December 29, 2017, the Group signed the lock-up agreement with pre-export facility lenders in order to facilitate the pre-export facility restructuring in the future. It will pursue to reach the restructuring agreements with other lenders, including ECA-covered loans creditors.

The management has concluded that the existing uncertainty about the Group's availability of free cash flow for repayment or ability to refinance and restructure current liabilities 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 crude steel production, increase in sales of the major steel products as well as diversifying products range into specialty products, rails and beams targeting higher marginal market niches. Together with the further development of the Group's mining assets providing additional volumes of high-grade coking coal both to the Russian consumers and to exports markets the Group expects it to result in an 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 selling 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.

5. Capital management

The equity capital of the Group was formed by injecting shares of its operating subsidiaries into Mechel PAO. This together with obtaining profits allowed the Group to raise debt to finance major investment projects as well as to acquire new companies. Although it has always been the Group's priority to create and grow the shareholders' value, during the past several 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. In 2012-2015, high price volatility on the coal seaborne market and metal market resulted in the decrease in the Group's operating profit and impairments of non-current assets. Devaluation of the national currency (Russian ruble) affected the amount of foreign exchange losses and increase in cost of financing on local and foreign debt markets. These facts became the major reason for the losses incurred by the Group in the past and resulted in a negative equity. At the meantime the amount of the total Group's debt denominated in U.S. dollar decreased from $2,963 million (RUB 96,989 million at exchange rate as of December 31, 2013) at the end of 2013 to $1,772 million (RUB 102,040 million at exchange rate as of December 31, 2017) at the end of 2017, which is a result of partial repayment of U.S. dollar-denominated debt and conversion of U.S. dollar-denominated debt into RUB-denominated loans during the restructuring process.

Given current economic circumstances and the amount of debt, the Group's primary objective is to focus on resolving the debt issues through a long-term restructuring of the loan portfolio and bringing down both cost of financing and actual interest payments as well as use of all available free cash flow for repayment of debt. The Group's long-term policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to ensure sustainable future development of the business. The Group's management constantly monitors profitability and leverage ratios. 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 level of dividends is monitored by the Board of Directors of the Group.

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2017:

Restrictive covenant	Requirement	Actual as of December 31, 2017
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.50:1.0	1.78:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 1.50:1.0	1.86:1.0
Mechel's Net Debt to EBITDA	Not exceed 8.0:1.0	6.35:1.0
Mechel's Total Debt to EBITDA	Not exceed 5.5:1.0	6.07:1.0
Mechel's Cash flow from operating activities to EBITDA	Shall not be less than 0.8:1.0	0.78:1.0
Mechel's EBITDA to Revenue	Shall not be less than 0.2:1.0	0.27:1.0

The Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2016[1]:

Restrictive covenant	Requirement	Actual as of December 31, 2016
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.25:1.0	1.36:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 1.25:1.0	1.28:1.0
Mechel's Net Debt to EBITDA	Shall not exceed 9.00:1.0	7.18:1.0
Mechel's Total Debt to EBITDA	Shall not exceed 7.50:1.0	7.48:1.0

[1] Detailed information in respect of restrictive covenant calculations is presented in Note 11.1.

In 2012-2015, following a sudden fall of the commodity markets the Group violated most of such covenants and defaulted on major credit facilities of interest and debt payments. Limited free cash flow available for debt service forced the Group to start negotiations with creditors about review of schedule of the debt maturity profile. Current restructuring arrangements with major creditors are aimed at rescheduling repayment of principal, gradual amortisation and decrease in interest payments by partial capitalization.

Cost of debt is also important for the Group's capital management. Throughout the restructuring process, the Group changed the floating interest rates dependent on the Russian money market (Mosprime rate) to the key rate of the Central Bank of Russia, which is less volatile and better represents the cost of funds for the local banks set by the Central Bank of Russia. The management believes that it will allow the Group to avoid sudden splashes in the cost of debt due to temporary demand/supply fluctuations. In 2016, under the restructuring agreements, the outstanding balance of U.S. dollar-denominated long-term loans was partially converted from U.S. dollar into Russian ruble, which will allow to reduce the cost of foreign currency fluctuations. On the foreign currency indebtedness, the Group's finance cost is based on the floating LIBOR/EURIBOR, which remains comparatively low. In September 2017, Vnesheconombank and the Group signed a loan agreement which provided an extention of the debt's maturity until the second quarter of 2022. In December 2017, the Group has obtained consent of more than 75% by value and the majority in number of the pre-export facility participants to implement the restructuring of such facilities.

The main goal for the Group is to achieve long-term restructuring of the loan portfolio with a grace period for repayment of debts and gradual decrease in debt balance, which will permit to restore working capital, improve efficiency of operations and provide ability to sustain full service of debt in accordance with newly agreed repayment schedules as well as use of all available free cash flow for repayment of debt through cash sweep mechanism, which stipulates that all available cash flow above agreed minimum level shall be used for earlier repayment of debts to major creditors.

In June 2016, a 49% stake in the Elga coal complex (OOO Elgaugol, Elga-road OOO and Mecheltrans Vostok OOO) was sold to Gazprombank by exercising an option held by Gazprombank for a total consideration of RUB 34,300 million. All proceeds received from the sale of the shares were used for repayment of the Group's debt re-assigned from Sberbank to Gazprombank, and to repay overdue payment to Sberbank. Simultaneously with the sale of a 49% stake, a put option in respect of this stake was granted to Gazprombank (see Note 6).

The objectives, policies and processes for managing capital during the years ended December 31, 2017 and 2016 were not changed.

6. Business combinations and changes in non-controlling interests

There were no new business combinations in the years ended December 31, 2017, 2016 and 2015.

On December 22, 2011, the Group acquired 100% of the shares of Daveze Ltd, which held 100% of ownership interest in 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 disclosed the respective payments in the consolidated statement of cash flows within cash outflows from financing activities.

The following table summarizes changes in non-controlling interests for the years ended December 31, 2017, 2016 and 2015:

Balance at December 31, 2014	**8,253**
Change in non-controlling interests in existing subsidiaries of the Group (Note 24)	(2,842)
Profit for the period	535
Other comprehensive income/(loss)	2
Balance at December 31, 2015	**5,948**
Change in non-controlling interests in existing subsidiaries of the Group	(4)
Reversal of unclaimed declared dividends to non-controlling interests upon expiration of limitation period	35
Dividends declared to non-controlling interests	(3)
Profit for the period	1,706
Other comprehensive income/(loss)	4
Balance at December 31, 2016	**7,686**
Change in non-controlling interests in existing subsidiaries of the Group (Note 24)	590
Dividends declared to non-controlling interests	(359)
Profit for the period	1,013
Other comprehensive income/(loss)	3
Balance at December 31, 2017	**8,933**

In June 2016, 49% share in the Elga coal complex was sold to Gazprombank by exercising an option held by Gazprombank for a total consideration of RUB 34,300 million. The Group sold to Gazprombank upon its request a 49% stake in Elgaugol OOO, the owner of the subsoil license for the Elga coal deposit, a 49% stake in Elga-road, 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 transportation operator (collectively, the "target companies").

Simultaneously with the sale of a 49% stake in the target companies a put option with fixed price and annual interest at the key rate of the Central Bank of Russia plus 2% was granted to Gazprombank to sell the stake (in full or in part) in the target companies to the Group within three years following a five-year grace period or in case of a breach of conditions stipulated by such agreement. This allowed the Group to retain control over 100% of shares and therefore this transaction in fact represents a financial liability. Put options are signed by Yakutugol and Mecheltrans (sellers of the stakes in target companies) and are guaranteed by Mechel Mining and SKCC. If the Group fails to perform under these put options Gazprombank has 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 is pledged in favor of Gazprombank as a security for the call option.

For accounting for this financial liability see Note 11.4.

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:

Name	At December 31, 2017	At December 31, 2016
SKCC and subsidiaries*	0.9%	3.4%
Kuzbass Power Sales Company (KPSC)	27.9%	27.9%
Chelyabinsk Metallurgical Plant (CMP)	5.8%	5.9%
Southern Urals Nickel Plant (SUNP)	15.9%	15.9%
Beloretsk Metallurgical Plant (BMP)	8.6%	8.6%
Korshunov Mining Plant (KMP)	10.0%	10.0%
Urals Stampings Plant (USP)	6.2%	6.2%
Izhstal	10.0%	10.0%

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

The summarised financial information for these subsidiaries is provided below. This information is based on amounts before inter-company eliminations. SUNP was recognized as abandoned operations activity according to a decision to close SUNP without sale for the nine months of 2016, and year ended December 31, 2015. Therefore, SUNP's results for the nine months period ended September 30, 2016, and for the year ended December 31, 2015 are not disclosed in summarised statements of profit and loss and summarized cash flow information below. The SUNP's results for the fourth quarter of 2016 are disclosed in summarised statements of profit or loss below. Profit allocated to SUNP non-controlling interest was RUB 19 million and RUB 80 million for the years ended December 31, 2016 and 2015.

Summarised statements of profit (loss) and other comprehensive income (loss) for 2017:

	SKCC and subsidiaries	**KPSC**	**CMP**	**SUNP**	**BMP**	**KMP**	**USP**	**Izhstal**
Revenue	31,993	22,418	118,557	102	24,206	11,492	12,725	18,696
Cost of sales	(18,173)	(10,754)	(102,398)	(24)	(21,464)	(6,136)	(10,089)	(16,199)
Total selling, distribution and operating expenses, net	(7,844)	(11,182)	(11,894)	(184)	(1,634)	(5,576)	(909)	(3,486)
Total other income and (expense), net	12,769	340	(506)	531	379	2,913	1,382	(906)
Profit before tax	**18,745**	**822**	**3,759**	**425**	**1,487**	**2,693**	**3,109**	**(1,895)**
Income tax (expense) benefit	(718)	(170)	544	(85)	(91)	212	(144)	194
Profit (loss) for the year from continuing operations	**18,027**	**652**	**4,303**	**340**	**1,396**	**2,905**	**2,965**	**(1,701)**
Total comprehensive income (loss)	**18,027**	**652**	**4,303**	**340**	**1,396**	**2,905**	**2,965**	**(1,701)**
Attributable to non-controlling interests	103	182	256	54	114	281	183	(170)
Dividends paid to non-controlling interests	198	–	–	–	–	–	–	–

Summarised statements of profit (loss) and other comprehensive income (loss) for 2016:

	SKCC and subsidiaries	**KPSC**	**CMP**	**SUNP**	**BMP**	**KMP**	**USP**	**Izhstal**
Revenue	27,171	20,695	107,119	16	22,718	8,782	12,471	14,357
Cost of sales	(18,115)	(10,518)	(84,441)	(8)	(20,311)	(6,064)	(9,908)	(12,456)
Total selling, distribution and operating expenses, net	(6,284)	(9,865)	(11,261)	13	(1,746)	(3,029)	(1,035)	(1,254)
Total other income and (expense), net	3,995	274	1,209	530	(640)	2,742	756	(476)
Profit before tax	**6,767**	**586**	**12,626**	**551**	**21**	**2,431**	**2,284**	**171**
Income tax (expense) benefit	(592)	(128)	297	(27)	29	25	(170)	266
Profit for the year from continuing operations	**6,175**	**458**	**12,923**	**524**	**50**	**2,456**	**2,114**	**437**
Total comprehensive income	**6,175**	**458**	**12,923**	**524**	**50**	**2,456**	**2,114**	**437**
Attributable to non-controlling interests	241	128	757	83	4	245	132	44
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–

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 sales	(19,842)	(11,268)	(78,995)	(21,518)	(6,400)	(9,663)	(8,589)
Total selling, distribution and operating expenses, net	(6,281)	(8,924)	(6,421)	(1,991)	(3,031)	(3,207)	5,097
Total other income and (expense), net	(27,950)	167	(9,078)	1,702	2,768	993	(1,552)
(Loss) profit before tax	**(22,904)**	**698**	**1,632**	**1,798**	**1,121**	**714**	**4,858**
Income tax (expense) benefit	(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	2	–	–	–	–	–	–

Summarised statements of financial position as of December 31, 2017:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	43,303	3,492	44,440	7,245	10,104	11,111	11,005	4,958
Non-current assets	86,396	4,158	86,353	–	6,810	23,006	15,958	2,880
Current liabilities	(136,469)	(2,804)	(99,119)	(135)	(6,502)	(1,599)	(6,700)	(12,059)
Non-current liabilities	(4,019)	(76)	(5,252)	(192)	(145)	(390)	(160)	(1,981)
Total equity	**10,789**	**(4,770)**	**(26,422)**	**(6,918)**	**(10,267)**	**(32,128)**	**(20,103)**	**6,202**
Attributable to:								
Equity holders of parent	10,990	(3,443)	(24,913)	(5,820)	(9,383)	(28,929)	(18,856)	5,587
Non-controlling interest	(201)	(1,327)	(1,509)	(1,098)	(884)	(3,199)	(1,247)	615

Summarised statements of financial position as of December 31, 2016:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	29,513	3,666	36,533	3,150	7,367	9,905	9,768	3,490
Non-current assets	89,689	3,586	83,378	3,841	8,010	22,165	15,197	5,526
Current liabilities	(138,268)	(3,025)	(92,371)	(230)	(6,291)	(1,951)	(7,700)	(8,165)
Non-current liabilities	(3,778)	(104)	(5,562)	(181)	(130)	(799)	(80)	(5,372)
Total equity	**22,844**	**(4,123)**	**(21,978)**	**(6,580)**	**(8,956)**	**(29,320)**	**(17,185)**	**4,521**
Attributable to:								
Equity holders of parent	22,492	(2,974)	(20,690)	(5,534)	(8,190)	(26,401)	(16,113)	4,069
Non-controlling interest	352	(1,149)	(1,288)	(1,046)	(766)	(2,919)	(1,072)	452

Summarised cash flow information for the year ended December 31, 2017:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating	(3,594)	(347)	3,017	(845)	(1,532)	(1,636)	(416)	707
Investing	15,036	421	2,069	844	1,788	1,807	1,925	117
Financing	(11,445)	(45)	(4,826)	–	(323)	(172)	(1,590)	(755)
Increase (decrease) in cash and cash equivalents, net	**(3)**	**29**	**260**	**(1)**	**(67)**	**(1)**	**(81)**	**69**

Summarised cash flow information for the year ended December 31, 2016:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating	14,923	707	14,900	806	(491)	86	2,119	987
Investing	25,989	(554)	(8,035)	(806)	398	310	(1,226)	(33)
Financing	(41,114)	200	(6,418)	–	151	(396)	(839)	(949)
(Decrease) increase in cash and cash equivalents, net	**(202)**	**353**	**447**	**–**	**58**	**–**	**54**	**5**

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

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	11,513	924	2,586	1,622	(2,123)	1,926	803
Investing	(7,894)	(584)	(12,368)	622	2,352	(3,782)	(34)
Financing	(3,464)	(21)	9,482	(2,090)	(274)	1,557	(756)
Increase (decrease) in cash and cash equivalents, net	**155**	**319**	**(300)**	**154**	**(45)**	**(299)**	**13**

8. Investments in associates

Investments in associates comprised of:

	Percent of shares held at		Investment carrying value at	
Investee	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Mechel Somani Carbon (Mining segment)	51%	51%	–	–
TPTU (Mining segment)	40%	40%	183	175
TRMZ (Mining segment)	25%	25%	100	90
Total investments in associates			**283**	**265**

Mechel Somani Carbon Private Limited shares are owned by Mechel Carbon AG. The core business is distribution of metallurgical coals in the Indian market. Despite the ownership of 51% of Mechel Somani Carbon shares the Group cannot exercise control over the company. As of December 31, 2017 and 2016, the Group recognized a provision of RUB 42 million for this investment.

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.

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

The following table shows movements in the investments in associates:

	Mechel Somani Carbon Private Limited (Mining segment)	TPTU (Mining segment)	TRMZ (Mining segment)	Total
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**
Share of profit	–	18	7	**25**
Provision for impairment of investments	(42)	–	–	**(42)**
Exchange differences	(2)	–	–	**(2)**
December 31, 2016	–	**175**	**90**	**265**
Share of profit	–	9	9	**18**
December 31, 2017	–	**184**	**99**	**283**

9. 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 2017, 2016 and 2015.

	2017			2016			2015		
	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)
Associates	230	134	(6)	200	117	(11)	199	80	28
Controlling shareholders and entities under control of the Group's Controlling shareholders	267	50	(33)	278	45	41	261	37	(23)
Total	**497**	**184**	**(39)**	**478**	**162**	**30**	**460**	**117**	**5**

As of December 31, 2017 and 2016, the Group had the following balances in settlement with related parties:

	December 31, 2017			December 31, 2016		
	Receivables from	Payables to	Total outstanding, net	Receivables from	Payables to	Total outstanding, net
Associates	16	(23)	**(7)**	33	(55)	**(22)**
Controlling shareholders and entities under control of the Group's Controlling shareholders	47	(35)	**12**	70	(37)	**33**
Total	**63**	**(58)**	**5**	**103**	**(92)**	**11**

(a) Transactions with associates

The Group's associates provide to the Group's subsidiaries transportation and auto repair services. During the years ended December 31, 2017, 2016 and 2015, the Group purchased from its associates transportation services in the amount of RUB 98 million, RUB 114 million and RUB 105 million, respectively, and repair services in the amount of RUB 132 million, RUB 86 million and RUB 94 million, respectively.

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

As of December 31, 2017 and 2016, the amounts of accounts receivable fully covered by the allowance included amounts receivable of RUB 24,391 million and RUB 24,539 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 (hereinafter referred to as "metallurgical plants") signed an assignment agreement. Under that agreement, the Group assigned to its related party the right to collect amounts due from the metallurgical plants, and the related party is to repay this amount to the Group through November 2017. In November 2017, the Group extended the terms of repayment through 2022. The amount of receivables and allowance have been reclassified to Non-current financial assets (Note 13).

The outstanding cash balance in Coalmetbank was RUB 1,217 million and RUB 200 million as of December 31, 2017 and December 31, 2016, respectively.

(c) Compensation to key management personnel

The total compensation to key management personnel was included in general and administrative expenses in the consolidated statement of profit (loss) and other comprehensive income (loss) and consisted of the short-term employee benefits in the amount of RUB 613 million, RUB 543 million and RUB 481 million in the years ended December 31, 2017, 2016 and 2015, 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.

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, 2017		December 31, 2016	
	Level	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities					
Interest-bearing loans and borrowings:					
- Floating rate loans	3	402,024	355,794	407,015	357,782
- Bonds	1	14,759	13,984	14,717	12,740
- Fixed rate loans	3	23,110	20,505	24,077	23,105
Other non-current financial liabilities (Note 11.4)	3	40,916	33,854	36,198	25,772
Other current financial liabilities (Note 11.5)	2	734	734	–	–
Total		**481,543**	**424,871**	**482,007**	**419,399**

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.

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:

	December 31, 2017		December 31, 2016	
Short-term borrowings and current portion of long-term debt	**Interest rate, %**	**Amount of outstanding debt**	**Interest rate, %**	**Amount of outstanding debt**
In Russian rubles				
Banks and financial institutions	9.3-12	2,410	9.8-14.5	3,458
Corporate lenders	6.7	65	6.7	64
Weighted average interest rate for the period	11.9	–	13.9	–
In U.S. dollars				
Banks and financial institutions	–	–	8.0	154
Weighted average interest rate for the period	–	–	8.0	–
In euro				
Banks and financial institutions	–	–	2.8	114
Corporate lenders	–	2	–	–
Weighted average interest rate for the period	–	–	2.8	–
Current portion of long-term debt	–	378,063	–	391,781
Interest payable	–	20,420	–	16,916
Fines and penalties on overdue amounts	–	21,573	–	21,678
Total short-term borrowings and current portion of long-term debt		**422,533**		**434,165**

	December 31, 2017		December 31, 2016	
Long-term debt	**Interest rate, %**	**Amount of outstanding debt**	**Interest rate, %**	**Amount of outstanding debt**
In Russian rubles				
Banks and financial institutions	5.0-15.0	253,421	5.0-15.0	258,855
Bonds issue	8.0-14.0	14,459	8.0-15.0	14,365
Corporate lenders	6.7	5	6.7	5
Weighted average interest rate for the period	9.5	–	12.5	–
In U.S. dollars				
Banks and financial institutions	2.2-8.9	102,040	2.2-8.2	107,346
Weighted average interest rate for the period	8.3	–	8.2	–
In euro				
Banks and financial institutions	0.8-7.0	25,498	0.8-7.3	22,854
Weighted average interest rate for the period	2.7	–	4.5	–
Current part of long-term loans and borrowings		(378,063)		(391,781)
Total long-term debt		**17,360**		**11,644**

Aggregate scheduled maturities of the debt outstanding as of December 31, 2017 were as follows:

Payable by	
On demand (current portion)	414,760
2018 (current portion)	7,773
2019	4,967
2020	6,100
2021	4,704
2022	1,589
Thereafter	–
Total	**439,893**

The unused portion under all credit facilities as of December 31, 2017 and 2016 was RUB 475 million and RUB 373 million, respectively.

The outstanding balances of principal amount of short-term and long-term debt by denominated currencies and major banks as of December 31, 2017 and 2016 were as follows:

Short-term and long-term debt	**December 31, 2017**	**December 31, 2016**
Russian ruble-denominated		
Gazprombank	148,238	153,614
VTB	72,570	71,711
Sberbank	26,459	31,106
Bonds	14,459	14,365
Uralsib	2,214	3,116
Eurasian Development Bank	517	1,227
Raiffeisen Bank	139	490
Other	5,764	1,119
Total	**270,360**	**276,748**
U.S. dollar-denominated		
Pre-export facility	57,829	60,898
Sberbank	14,626	21,811
VEB	10,090	10,147
BNP	8,894	9,251
VTB	6,172	–
MCB	4,096	5,041
Other	333	351
Total	**102,040**	**107,499**
Euro-denominated		
BNP	13,504	9,460
VTB	3,334	3,214
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	2,970	2,723
ING Bank	2,182	1,997
BNL	–	2,736
Raiffeisen Bank	411	381
Other	3,099	2,457
Total	**25,500**	**22,968**
Total short-term and long-term debt	**397,900**	**407,215**

(a) Pre-export facility agreement

As of December 31, 2017, pre-export facility agreement (represented by the syndicate of lenders – UniCredit Bank, Caterpillar Financial, ING Bank N.V., VTB Capital pls and other) bears interest at 1M LIBOR plus 5.5% p.a. (or 7.5% p.a. if payments are overdue). The outstanding balances as of December 31, 2017 and 2016 were RUB 57,829 million ($1,003,964 thousand at exchange rate as of December 31, 2017) and RUB 60,898 million ($1,003,964 thousand at exchange rate as of December 31, 2016), respectively.

As of December 31, 2017, the Group's overdue principal amount and overdue interest on pre-export facility agreement amounted to RUB 57,829 million and RUB 11,198 million, respectively, as of December 31, 2016 – RUB 60,898 million and RUB 7,123 million, respectively.

As of December 31, 2016, the Group was in the process of negotiation with the syndicate of lenders in order to reach the restructuring agreements for the pre-export credit facility. In February 2017, a number of lenders under pre-export facility agreements filed 14 requests for arbitration with the LCIA. Subsequently, the majority of banks from the syndicate renounced their claims and signed the lock-up agreement with the Group in December 2017 in order to facilitate the pre-export facility restructuring in the future. Preliminary restructuring conditions include extending the loan's final maturity to the first quarter of 2022 and bringing the interest rate down to the level of LIBOR plus 3.5% annual interest (with the possibility of reducing it further down to LIBOR plus 3% annual interest).

(b) VTB facilities

The outstanding balances of the ruble-denominated facilities as of December 31, 2017 and 2016 were RUB 72,570 million and RUB 71,711 million, respectively, bearing interest at 9.3% p.a.

In December 2016, the Group signed amendments to the restructuring agreements providing an extension of the repayment grace period until April 2020 and of the final maturity until April 2022 for the credit facilities of Mechel PAO, CMP, SKCC and Yakutugol in the total amount of RUB 71,711 million. The interest rate under the restructured agreements is set at the level of the key rate of the Central Bank of Russia plus 1.5% starting April 2016 (subject to increase to 2.35% through January 6, 2018, and 2.99% afterwards if certain conditions are not met). In April 2017, VTB confirmed the restructuring terms under the relevant credit facilities including an extension of the repayment grace period until 2020 and the final maturity until 2022 and annual interest rate at the level of the key rate of the Central Bank of Russia plus 1.5% for the ruble-denominated credit facilities. In accordance with the restructuring terms, the repayment of a RUB 30,000 million credit facility issued to Mechel PAO is made in equal installments within 36 months starting February 22, 2017 from the proceeds received from VTB under the credit facility issued to CMP[2]. Fines and penalties accrued prior to the restructuring date (December 23, 2016) were waived according to the restructured agreements (apart from the most significant amount of penalties accrued on credit facility of Mechel PAO – see details below).

In December 2016, the Group signed the prolongation agreement providing with the final maturity until April 2022 for the euro-denominated credit facility of MCAG in the amount of RUB 2,812 million (44,068 thousand euro at the exchange rate as of December 31, 2016). The outstanding balances as of December 31, 2017 and 2016 were RUB 3,334 million and RUB 3,214 million, respectively.

As part of the restructuring requirement, in January 2017, the Group signed a call option agreement with VTB providing VTB with an option to acquire preferred shares of the Group (Note 11.5).

In April 2017, the U.S. dollar-denominated credit facilities of MTAG were transferred from Sberbank to VTB according to the assignment agreement between Sberbank and VTB. The outstanding balance of these credit facilities as of December 31, 2017 was RUB 6,172 million bearing interest at 8.4% p.a.

There was no overdue principal amount and overdue interest on VTB credit facilities as of December 31, 2017 and 2016. The fines and penalties on overdue amounts of RUB 10,196[3] million and RUB 10,597 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2017 and 2016, respectively. The amount of nil, RUB 184 million and RUB 9,704 million was recorded as finance costs in the consolidated statement of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2017, 2016 and 2015, respectively.

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[2] Cash flows arising from settlement of VTB credit facilities were disclosed on a gross basis (as cash inflows and cash outflows within financing activities in the amount of RUB 5,000 million for the year ended December 31, 2017). All payments under the credit facility issued to Mechel PAO are made upon receipt of the respective procceds from VTB under the credit facility issued to CMP.

[3] 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.

(c) Gazprombank facilities

The outstanding balances of the ruble-denominated facilities as December 31, 2017 and 2016 were RUB 148,238 million and RUB 153,614 million, respectively, bearing interest at 9.3% p.a.

In 2015, the Group signed restructuring agreements (became effective in 2016) providing with an extension of the repayment grace period until April 2017 and of the final maturity until April 2020 for the credit facilities of SKCC, Yakutugol, CMP, Mechel Service, Mechel Energo, BMP, Port Posiet, Mechel Coke and USP in the total amount of RUB 150,809 million as of December 31, 2016. In April 2017, Gazprombank confirmed the restructuring terms under the relevant credit facilities including an extension of the repayment grace period until 2020 and of the final maturity until 2022 and annual interest rate at the level of the key rate of the Central Bank of Russia plus 1.5% for the ruble-denominated credit facilities.

As of December 31, 2017 and 2016, there was no overdue principal amount and overdue interest on Gazprombank credit facilities. The fines and penalties on overdue amounts of RUB 7,323 million and RUB 7,450 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2017 and 2016, respectively. The amount of RUB 56 million, RUB 2,031 million and RUB 5,179 million was recorded as finance costs in the consolidated statement of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2017, 2016 and 2015, respectively.

(d) Sberbank facilities

The outstanding balances of the ruble-denominated facilities as of December 31, 2017 and 2016 were RUB 26,459 million and RUB 31,106 million, respectively, bearing interest at 9.3% p.a.

In 2016, the Group signed restructuring agreements and amicable settlements agreement approved by the courts with Sberbank. Those agreements provided with an extension of the repayment grace period until April 2017 and the final maturity until April 2020 (with possibility of extension to April 2020 and April 2022, respectively, if certain conditions are met) for credit facilities in the amount of RUB 41,436 million and with an extension of the repayment grace period until January 2017 and the final maturity until the December 2017 for credit facilities in the amount of RUB 11,481 million. In April 2017, Sberbank confirmed the restructuring terms under the relevant credit facilities including an extension of the repayment grace period until 2020 and the final maturity until 2022 and annual interest rate at the level of the key rate of the Central Bank of Russia plus 1.5% for the ruble-denominated credit facilities and 3M LIBOR plus 7% for the U.S. dollar-denominated credit facilities. According to the restructuring agreements, fines and penalties were fixed at RUB 1.7 billion (at exchange rate as of December 31, 2015).

In April 2017, the U.S. dollar-denominated credit facilities of MTAG were transferred from Sberbank to VTB according to the assignment agreement between Sberbank and VTB. The outstanding balances of the U.S. dollar-denominated facilities as of December 31, 2017 and 2016 were RUB 14,626 million ($253,927 thousand at exchange rate as of December 31, 2017) and RUB 21,811 million ($359,587 thousand at exchange rate as of December 31, 2016), respectively, bearing interest at 8.4% p.a.

In October 2017, the Group signed amendment agreements with Sberbank that extend the payment of RUB 7,000 million that was due on October 15, 2017 until the end of May 2018 for the amount of RUB 2,000 million and until April 2022 for the remaining amount to be paid starting January 2020.

As of December 31, 2017 and 2016, there were no overdue principal amount and overdue interest on Sberbank credit facilities. The fines and penalties on overdue amounts of RUB 1,872 million and RUB 2,311 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2017 and 2016, respectively. The amount of RUB 4 million, RUB 2,244 million and RUB 2,699 million was recorded as finance costs in the consolidated statement of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2017, 2016 and 2015, respectively.

(e) VEB facility

In September 2017, the Group signed a new credit agreement, providing the Group with refinancing of existing credit facilities and the final maturity until April 2022[4]. According to the agreement, VEB provided a credit facility in the amount of up to $190 million to refinance existing credit facilities.

The Elgaugol's outstanding balances under VEB credit facility as of December 31, 2017 and 2016 were RUB 10,090 million ($175,172 thousand at exchange rate as of December 31, 2017) and RUB 10,147 million ($167,288 thousand at exchange rate as of December 31, 2016), respectively, bearing interest at 5.5% p.a.

As of December 31, 2017, there were no overdue principal amount and overdue interest on VEB credit facilities. As of December 31, 2016, the Group's overdue principal amount and overdue interest payable on VEB credit facilities amounted to RUB 8,882 million ($146,438 thousand at exchange rate as of December 31, 2016) and RUB 374 million ($6,163 thousand at exchange rate as of December 31, 2016), respectively. The use of proceeds under the facility is limited to the development of the Elga coal project.

There were no fines and penalties on overdue amounts recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2017. As of December 31, 2016, fines and penalties on overdue amounts of RUB 24 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position. The amount of RUB 9 million, RUB 10 million and RUB 9 million was recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015, respectively.

(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 coupon interest rate as of December 31, 2017 amounted to 11.5% p.a. The maturity date is July 15, 2021. The balance outstanding as of December 31, 2017 was RUB 1,321 million, including RUB 352 million classified as short-term debt and RUB 969 million classified as long-term debt.

On September 7, 2010, Mechel PAO placed two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The coupon interest rate as of December 31, 2017 amounted to 14.0% p.a. The maturity date is February 25, 2020. The balance outstanding as of December 31, 2017 was RUB 3,164 million, including RUB 973 million classified as short-term debt and RUB 2,191 million classified as long-term debt.

On February 22, 2011, Mechel PAO placed two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The coupon interest rate as of December 31, 2017 amounted to 8.0% p.a. The maturity date is February 9, 2021. The balance outstanding as of December 31, 2017 was RUB 820 million and was classified as long-term debt that should be paid in 2021.

On June 9, 2011, Mechel PAO placed two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The coupon interest rate as of December 31, 2017 amounted to 12.1% p.a. The maturity date is May 27, 2021. The balance outstanding as of December 31, 2017 was RUB 5,696 million, including RUB 1,583 million classified as short-term debt and RUB 4,113 million classified as long-term debt.

On June 14, 2011, Mechel PAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 5,000 million. The coupon interest rate as of December 31, 2017 amounted to 12.1% p.a. The maturity date is June 1, 2021. The balance outstanding as of December 31, 2017 was RUB 3,458 million, including RUB 988 million classified as short-term debt and RUB 2,470 million classified as long-term debt.

(g) Other loans

Other loans represent Russian ruble, U.S. dollar and euro-denominated long-term and short-term loans bearing interest at 0.8%-15% p.a. The outstanding balance under other loan agreements amounted to RUB 44,123 million and RUB 40,350 million as of December 31, 2017 and 2016, respectively.

[4] Cash flows arising from refinancing of VEB credit facilities were disclosed on the gross basis.

As of December 31, 2017, the Group's overdue principal amount and overdue interest on other loans amounted to RUB 17,409 million and RUB 1,527 million, respectively, as of December 31, 2016 – RUB 11,447 million and RUB 1,120 million, respectively. The fines and penalties on overdue amounts of RUB 2,182 million and RUB 1,276 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2017 and 2016, respectively. The amount of RUB 1,038 million, RUB 642 million and 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, 2017, 2016 and 2015, respectively. The amount of RUB 149 million of waived fines and penalties (due to the restructuring of Eurasian Development Bank credit facilities) was recorded as finance income in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2017.

In 2010-2016, the Group signed revolving credit agreements for working capital financing up to RUB 3,334 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 5.3%-7.0% p.a.

(h) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 100% − 1 share of Yakutugol, 95% + 4 shares of SKCC, 91.66% of CMP, 50% + 2 shares of common shares of BMP, 80% + 3 shares of KMP, 87.5% + 3 shares of Mechel Mining, 80% − 5 shares of USP, 33.33% + 1 share of common shares of Izhstal, 25% + 1 share of Port Posiet, 50.99% of Elgaugol, 25% of registered capital of Mecheltrans, 100% of registered capital of Fincom-invest OOO, 25% of BFP, 25% of Port Temryuk, 1.99% of Mecheltrans Vostok OOO, 1.99% of Elga-road as of December 31, 2017.

As of December 31, 2017 and 2016, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 121,926 million and RUB 117,047 million, respectively (Note 16). Carrying value of inventories pledged under the loan agreements amounted to RUB 2,450 million and RUB 3,668 million as of December 31, 2017 and 2016, respectively. Accounts receivable pledged as of December 31, 2017 and 2016 amounted to RUB 372 million and RUB 238 million, respectively. Additionally, CMP pledged its rights to receive future payments (revenue) related to the contract with Russian Railways JSC in the amount of RUB 5,760 million ($100 million).[5]

(i) Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, minimum value of shareholders' equity and certain cross-default provisions. The covenants also include, among other restrictions, limitations on: (1) raising of additional borrowings; (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, 2017[6]:

Restrictive covenant	Requirement	Actual as of December 31, 2017
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.50:1.0	1.78:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 1.50:1.0	1.86:1.0
Mechel's Net Debt to EBITDA	Shall not exceed 8.00:1.0	6.35:1.0
Mechel's Total Debt to EBITDA	Shall not exceed 5.50:1.0	6.07:1.0
Mechel's Cash flow from operating activities to EBITDA	Shall not be less than 0.80:1.0	0.78:1.0
Mechel's EBITDA to Revenue	Shall not be less than 0.20:1.0	0.27:1.0

[5] CMP's accounts receivable from Russian Railways JSC as of December 31, 2017 amounted to RUB 1,045 million.

[6] Net Debt and Total Debt are calculated according to the respective definitions set by the credit agreements. Generally, Total Debt includes outstanding loans, finance lease, bonds and other finance liability balances; Net Debt is equal to Total Debt less cash and cash equivalents, and excludes Net Debt of Elgaugol (set by the VTB credit facility).

As of December 31, 2017, the Group was in compliance with the majority of Group's restrictive financial covenants under the restructured loan agreements with the Russian state banks (Gazprombank, Sberbank and VTB). However, the Group was not in compliance with covenants set by the loan agreements with Gazprombank and Sberbank (such as Total Debt to EBITDA ratio and Cash flow from operating activities to EBITDA ratio). The Group was not in compliance with covenants contained in the loan agreements with foreign banks (such as Net Borrowings to EBITDA ratio, EBITDA to Net Interest Expense ratio and targeted amount of Adjusted Shareholder's Equity). There was a default on payments of principal and interest in the amount of RUB 75,237 million and RUB 12,725 million, respectively, which is represented primarily by the default of the pre-export facility agreement (Note 11.1(a)) and ECA-covered loans (represented by the credit facilities of BNP, BNL, ING, Raiffeisen Bank and other international banks − Note 11.1(g)). As a result, the long-term debt of RUB 284,156 million was reclassified to short-term liabilities as of December 31, 2017.

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 Group has procedures with the objective 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, 2017, the Group was in breach of a number of financial and non-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, 2017							
Loans and borrowings, including interest payable	416,316	9,959	6,678	7,293	5,215	1,651	**447,112**
Finance lease liabilities	4,075	4,625	633	584	557	526	**11,000**
Trade and other payables	394	29,540	542	166	–	–	**30,642**
Other financial liabilities	–	869	–	–	55,905	–	**56,774**

	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, 2016							
Loans and borrowings, including interest payable	428,597	8,496	4,688	4,648	3,593	2,455	**452,477**
Finance lease liabilities	7,857	4,456	280	106	83	61	**12,843**
Trade and other payables	435	37,231	448	181	–	–	**38,295**
Other financial liabilities	–	–	–	–	–	60,475	**60,475**

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 about 30 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, 2017	December 31, 2016
Restricted cash (excluding cash on hand)	20	24
Trade and other receivables	18,825	19,121
Other financial assets	795	415
- Promissory notes	*210*	*208*
- Loans issued	*571*	*61*
- Bonds	*14*	*13*
- Deposits	*–*	*133*
Total	**19,640**	**19,560**

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 currencies.

The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. Approximately 22% of the Group's sales are denominated in U.S. dollars and 12% of the Group's sales are denominated in euro, 28% 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 euros that reduces the 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'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, 2017	December 31, 2016
Current assets	**829**	**225**
Receivables	111	156
Cash and cash equivalents	718	69
Current liabilities	**(118,677)**	**(124,281)**
Short-term loans and borrowings	(112,277)	(113,327)
Short-term payables	(5,614)	(9,433)
Short-term finance lease liability	(786)	(1,521)

Assets and liabilities denominated in euro	December 31, 2017	December 31, 2016
Current assets	**746**	**534**
Receivables	711	353
Cash and cash equivalents	35	181
Non-current liabilities	**(88)**	**(38)**
Long-term loans and borrowings	–	(38)
Long-term finance lease liability	(88)	–
Current liabilities	**(27,399)**	**(23,766)**
Short-term loans and borrowings	(25,304)	(22,817)
Short-term payables	(2,064)	(838)
Short-term finance lease liability	(31)	(111)

Currency exchange rates	December 31, 2017	December 31, 2016
U.S. dollar	57.6002	60.6569
Euro	68.8668	63.8111

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
2015				
	+40%	119,557	+40%	11,082
	-15%	(44,834)	-15%	(4,156)
2016				
	+20%	24,811	+20%	4,654
	-20%	(24,811)	-20%	(4,654)
2017				
	+10%	11,785	+10%	2,674
	-10%	(11,785)	-10%	(2,674)

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, 2017 and 2016, the shares of the borrowings with floating rates in the total amount of the borrowings were 95% (incl. Mosprime – 0.03%, key rate of the Central Bank of Russia – 66%, LIBOR, EURIBOR and others – 29%) and 91% (incl. Mosprime – 0.1%, key rate of the Central Bank of Russia – 62%, LIBOR, EURIBOR and others – 29%), respectively.

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

	Increase/ decrease in MosPrime and Central Bank of Russia rate (%)	Effect on profit before tax	Increase/ decrease in LIBOR (%)	Effect on profit before tax	Increase/ decrease in EURIBOR (%)	Effect on profit before tax
2015						
	+6%	3,312	+0.5%	662	+0.25%	62
	-5%	(2,760)	-0.12%	(159)	-0.25%	(62)
2016						
	+2%	4,943	+0.6%	736	+0.12%	28
	-4%	(9,887)	-0.08%	(98)	-0.08%	(19)
2017						
	+1%	2,744	+0.48%	500	+0.04%	8
	-2%	(5,488)	-0.24%	(250)	-0.08%	(16)

11.3 Other current financial assets

In November 2011, the owners of the metallurgical plants (refer to Note 9(b)) 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, 2011) 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 metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the 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 metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service. The Group has not taken possession of assets provided as collateral because these entities are under the bankruptcy procedure and burdened with substantial amount of debt.

The Group evaluates the recoverability of the loan based on the fair value of the pledged assets. As of December 31, 2017, 2016 and 2015, this loan in the amount of RUB 9,800 million, RUB 50,320 million and RUB 60,620 million, respectively, was fully provided for as the fair value of the pledged assets was nil as at these dates. In 2017, this loan was partially written off in the amount of $664,556 thousand (RUB 39,297 million as at exchange rate at March 14, 2017) due to liquidation of certain debtors.

11.4 Other non-current financial liabilities

The Group recognized other non-current financial liabilities under the put option of Gazprombank (see Note 6) in the amount of RUB 40,260 million as of December 31, 2017 and RUB 36,198 million as of December 31, 2016 (estimated at the present value of the consideration to be transferred upon the exercise of the put option discounted at the key rate of the Central Bank of Russia plus 2%). The respective finance cost was recognized in the consolidated statement of profit (loss) and other comprehensive income (loss) in the amount of RUB 4,062 million and RUB 1,898 million for 2017 and 2016, respectively (Note 25.5).

11.5 Other current financial liabilities

As a part of the restructuring requirements of the credit facility with VTB, in January 2017, the Group signed a call option agreement with VTB providing VTB with an option to acquire a 5% stake (6,937,846 preferred shares) of the preferred shares of the Group at a price of 47.3682 rubles per share or to pay cash to VTB in the amount calculated as a difference between the weighted average market value of preferred shares for the last six months from the date of the call from the VTB and the price of 47.3682 rubles per share or combination of these two options. Until the execution of the call option 6,937,846 preferred shares are pledged.

At the date of the call option agreement, the Group recognized the financial liability at fair value in the amount of RUB 815 million. The corresponding amount was capitalized as restructuring fees within Interest-bearing loans and borrowings considering this call option agreement as part of the restructuring requirement.

In April 2017, VTB notified the Group of its decision to exercise the option. The Group has requested to extend the start day of the option period by one year till April 1, 2018. On August 9, 2017, the Group and VTB signed an amendment agreement postponing the option period start date till April 1, 2018, removing an option to acquire 5% of preferred shares and granting VTB the right to receive only a cash consideration in the amount equal to the higher of RUB 620 million or the amount calculated as a difference between the weighted average market value of preferred shares for the last six months from the date of the call from VTB and the price of 47.3682 rubles per share multiplied by the number of option shares. Respective financial liability is accounted for at fair value and was included in other current financial liabilities in the amount of RUB 734 million as of December 31, 2017.

12. Inventories

	December 31, 2017	December 31, 2016
Raw materials	15,050	13,666
Work in progress	6,990	5,654
Finished goods and goods for resale	15,950	15,907
Total inventories at the lower of cost and net realizable value	**37,990**	**35,227**

During 2017, RUB 470 million (2016: RUB 364 million, 2015: RUB 1,003 million) was recognised as an expense within cost of sales for inventories carried at net realisable value. The amount of inventories recognised as an expense during the period was RUB 102,613 million for 2017 (2016: RUB 95,019 million, 2015: RUB 100,577 million).

13. Trade and other receivables

	December 31, 2017	December 31, 2016
Trade receivables, including	23,878	24,325
- domestic customers	*19,064*	*20,436*
- foreign customers	*4,814*	*3,889*
Other receivables	3,967	28,670
Total trade and other receivables	**27,845**	**52,995**
Less allowance for doubtful accounts	(9,083)	(33,941)
Total accounts receivable, net	**18,762**	**19,054**

As of December 31, 2016, receivables from related parties in the amount of RUB 24,539 million are included into Other receivables. The amounts are fully covered by the allowance (Note 9(b)).

As of December 31, 2017 and 2016, the ageing analysis of trade receivables was as follows:

	December 31, 2017	December 31, 2016
Total receivables	**27,845**	**52,995**
Past due but not impaired		
=<30 days	2,423	2,739
31-60 days	503	528
61-90 days	180	201
91-180 days	332	476
181-365 days	314	362
>1 year	214	183
Total past due but not impaired	**3,966**	**4,489**

Receivables that were past due but not impaired amounted to RUB 3,966 million and RUB 4,489 million as of December 31, 2017 and 2016, respectively. 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.

The movements in the allowance for doubtful accounts on trade and other receivables were as follows:

	Total
At December 31, 2014	**(38,882)**
Charge for the year	(1,152)
Utilised amounts	261
Disposal of subsidiaries	10
Reclassified in assets of disposal group held for sale	25
Exchange rate difference	(480)
At December 31, 2015	**(40,218)**
Charge for the year	(613)
Utilised amounts	6,637
Disposal of subsidiaries	11
Exchange rate difference	242
At December 31, 2016	**(33,941)**
Charge for the year	(343)
Utilised amounts	603
Reclassified to non-current financial assets (Note 11.3)	24,391
Exchange rate difference	207
At December 31, 2017	**(9,083)**

14. Other current and non-current assets

	December 31, 2017	December 31, 2016
Other current assets		
Prepayments and advances	4,049	3,873
Input VAT and other taxes recoverable	3,413	3,000
Other current assets	127	69
Total prepayments and other current assets	**7,589**	**6,942**

	December 31, 2017	December 31, 2016
Other non-current assets		
Deferred assets from sale and lease back	273	306
Other non-current assets	485	585
Total other non-current assets	**758**	**891**

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.

Reversal of provision for advances issued of RUB 11 million, provision for advances issued of RUB 185 million and RUB 355 million were included in Provision for doubtful accounts in the consolidated statement of profit (loss) and other comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015.

15. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	7	8
Cash at banks, including		
- in Russian rubles	*617*	*683*
- in U.S. dollars	*1,377*	*482*
- in euro	*305*	*404*
- in other currencies	*146*	*109*
Other cash and cash equivalents	–	3
Total cash and cash equivalents	**2,452**	**1,689**

For the purpose of the consolidated statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB1,229 million and RUB 236 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Group had short-term deposits included in cash at banks of RUB 1,062 million and nil, respectively. As of December 31, 2017 and 2016, the amount of RUB 24 million and RUB 24 million, respectively, was restricted for use by regulatory requirements. As of December 31, 2017 and 2016, the Group had available RUB 475 million and RUB 373 million, respectively, of undrawn committed borrowing facilities.

Reconciliation between the changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes:

	Interest-bearing loans and borrowings	Finance lease liabilities	Deferred payments for acquisition of assets	Put option of Gazprombank	Other current financial liabilities	Deferred consideration paid for the acquisition of subsidiaries in prior periods
At December 31, 2014	**395,864**	**15,359**	**–**	**–**	**–**	**15,888**
Cash flows	(24,775)	(4,309)	–	–	–	(4,819)
Foreign exchange movement	65,568	481	–	–	–	3,730
Changes in fair value	–	–	–	–	–	–
Other changes, including interest	59,325	2,457	–	–	–	–
At December 31, 2015	**495,982**	**13,988**	**–**	**–**	**–**	**14,799**
Cash flows	(70,084)	(5,217)	–	34,300	–	(4,732)
Foreign exchange movement	(25,303)	(351)	–	–	–	(2,035)
Changes in fair value	–	–	–	1,898	–	–
Other changes, including interest	45,214	2,176	1,052	–	–	–
At December 31, 2016	**445,809**	**10,596**	**1,052**	**36,198**	**–**	**8,032**
Cash flows	(42,480)	(4,801)	(455)	–	–	(3,652)
Foreign exchange movement	(3,942)	(67)	–	–	–	(370)
Changes in fair value	–	–	–	4,062	(81)	–
Other changes, including interest	40,506	3,626	1,083	–	815	–
At December 31, 2017	**439,893**	**9,354**	**1,680**	**40,260**	**734**	**4,010**

The table above does not include dividends paid of RUB 978 million, RUB 7 million and RUB 5 million, acquisition of non-controlling interests in subsidiaries of RUB 3,358 million, nil and RUB 1 million and fines and penalties on overdue finance leases of RUB 13 million, RUB 129 million and RUB 524 million for the years ended December 31, 2017, 2016 and 2015, respectively. The amounts presented in other changes are primarily attributable to interest accrued of RUR 41,528 million, RUR 45,664 million and RUR 40,337 million for the years ended December 31, 2017, 2016 and 2015, respectively.

16. 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 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**
Additions.........................	–	504	1,428	549	25	5,027	542	–	**8,075**
Change in rehabilitation provision......................	–	346	–	–	–	–	(212)	–	**134**
Transfers.........................	1	2,435	2,610	180	(209)	(8,393)	389	2,987	**–**
Disposals	(75)	(3,050)	(3,266)	(1,717)	(169)	(2,330)	(536)	–	**(11,143)**
Exchange differences.......	(190)	(841)	(675)	(120)	(61)	(6)	(1)	–	**(1,894)**
At December 31, 2016....	**3,049**	**77,659**	**114,328**	**29,291**	**822**	**21,134**	**15,100**	**74,791**	**336,174**
Additions.........................	6	363	1,531	3,124	45	5,767	1,576	–	**12,412**
Change in rehabilitation provision......................	–	141	–	–	–	–	(58)	–	**83**
Transfers.........................	–	2,934	3,360	190	148	(7,011)	362	17	**–**
Disposals	(12)	(432)	(1,713)	(1,795)	(28)	(245)	(3)	–	**(4,228)**
Exchange differences.......	52	148	132	21	9	–	–	–	**362**
At December 31, 2017....	**3,095**	**80,813**	**117,638**	**30,831**	**996**	**19,645**	**16,977**	**74,808**	**344,803**
Depreciation and impairment									
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)**
Depreciation charge.........	–	(3,774)	(7,760)	(2,613)	(50)	–	(133)	(247)	**(14,577)**
Disposals	–	3,160	3,045	1,272	198	238	437	–	**8,350**
Reversal of impairment/ (impairment)................	(224)	(260)	(215)	(98)	–	(887)	(16)	–	**(1,700)**
Exchange differences.......	32	546	550	86	52	(1)	(1)	–	**1,264**
At December 31, 2016....	**(251)**	**(35,905)**	**(72,899)**	**(16,769)**	**(733)**	**(1,582)**	**(3,101)**	**(581)**	**(131,821)**
Depreciation charge.........	–	(3,747)	(7,315)	(2,222)	(72)	–	(245)	(235)	**(13,836)**
Disposals	–	302	1,611	1,720	22	127	1	7	**3,790**
Impairment	(37)	(876)	(2,174)	(454)	(5)	(278)	(1,067)	–	**(4,891)**
Exchange differences.......	(4)	(49)	(95)	(13)	(9)	–	–	–	**(170)**
At December 31, 2017....	**(292)**	**(40,275)**	**(80,872)**	**(17,738)**	**(797)**	**(1,733)**	**(4,412)**	**(809)**	**(146,928)**
Net book value									
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**
At December 31, 2016....	**2,798**	**41,754**	**41,429**	**12,522**	**89**	**19,552**	**11,999**	**74,210**	**204,353**
At December 31, 2017....	**2,803**	**40,538**	**36,766**	**13,093**	**199**	**17,912**	**12,565**	**73,999**	**197,875**

According to the results of the impairment analysis of non-current assets, impairment losses of RUB 4,891 million, RUB 1,700 million and RUB 16 million were recognized by the Group for the years ended December 31, 2017, 2016 and 2015, respectively (Note 18).

Assets under construction

As of December 31, 2017 and 2016, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 342 million and RUB 430 million, respectively.

Property pledged to the banks as security

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

	December 31, 2017	December 31, 2016
Net book value	121,926	117,047

Finance leases

The Group leases operating machinery and equipment and transportation vehicles 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 bargain price.

	December 31, 2017	December 31, 2016
Net book value − operating machinery and equipment	1,516	2,825
Net book value − transportation vehicles	9,690	9,265

Additions of operating machinery and equipment and transportation vehicles under finance lease during the year ended December 31, 2017 amounted to RUB 2,295 million (2016: RUB 386 million).

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2017 was RUB 621 million (2016: RUB 1,015 million, 2015: RUB 1,954 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 9.70% (2016: 10.28%, 2015: 15.02%), which is the average rate of the eligible borrowings.

17. Intangible assets

	Goodwill	Mineral licenses	Other intangible assets
Cost			
At December 31, 2014	**32,958**	**55,712**	**–**
Additions	–	71	–
Disposal	(88)	–	–
Exchange differences	125	–	–
At December 31, 2015	**32,995**	**55,783**	**–**
Additions	–	–	–
Disposal	–	–	–
Exchange differences	(93)	–	–
At December 31, 2016	**32,902**	**55,783**	**–**
Additions	–	–	880
Disposal	–	(165)	–
Exchange differences	(24)	–	–
At December 31, 2017	**32,878**	**55,618**	**880**
Depletion, amortisation and impairment			
At December 31, 2014	**(10,261)**	**(15,590)**	**–**
Impairment	(1,444)	–	–
Depletion and amortisation	–	(1,676)	–
Disposal	88	–	–
Exchange differences	–	–	–
At December 31, 2015	**(11,617)**	**(17,266)**	**–**
Impairment	(2,930)	(572)	–
Depletion and amortisation	–	(1,846)	–
Disposal	–	–	–
Exchange differences		–	–
At December 31, 2016	**(14,547)**	**(19,684)**	**–**
Impairment	–	(1,190)	–
Depletion and amortisation	–	(1,504)	–
Disposal	–	–	–
Exchange differences	–	–	–
At December 31, 2017	**(14,547)**	**(22,378)**	**–**
Net book value			
At December 31, 2014	**22,697**	**40,122**	**–**
At December 31, 2015	**21,378**	**38,517**	**–**
At December 31, 2016	**18,355**	**36,099**	**–**
At December 31, 2017	**18,331**	**33,240**	**880**

Mineral licenses 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 sales 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, 2017, 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 2020 and 2025, 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.

In December 2017, the Group acquired the rights to connect to the power grid for providing the SKCC's power receiving equipment with an additional power capacity. These rights are recorded as other intangible assets of mining segment with a useful life of 25 years.

As of December 31, 2017 and 2016, the Group performed an impairment analysis of goodwill (Note 18).

18. Impairment of goodwill and other non-current assets

As of December 31, 2017 and 2016, the Group performed an impairment analysis of goodwill and other non-current assets at 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, 2017**	**December 31, 2016**
Yakutugol	Mining	13,399	13,399
Southern Kuzbass Power Plant	Power	2,382	2,382
Kuzbass Power Sales Company	Power	1,026	1,026
Port Posiet	Mining	756	756
Chelyabinsk Metallurgical Plant	Steel	556	580
Southern Kuzbass Coal Company	Mining	143	143
Port Temryuk	Mining	69	69
Bratsk Ferroalloy Plant	Steel	–	2,930
Total		**18,331**	**21,285**

As of December 31, 2017 and 2016, the recoverable amount of CGUs was determined based on value in use. The material assumptions that drive the value in use are represented by projected prices, sales volumes, operating costs, terminal growth rates and 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.

The forecasted period for non-mining subsidiaries of the Group was assumed to be five years to reach stabilized cash flows. As of December 31, 2017, the value beyond the forecasted period was based on the terminal growth rates of 2%-4%. For mining subsidiaries of the Group the forecasted period was based on the remaining life of the mines.

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, were as follows:

	Forecast period, years				
For the year ended December 31, 2016	**2017**	**2018**	**2019**	**2020**	**2021**
Inflation rate in Russia	5.1%	4.0%	4.0%	4.0%	4.0%
Inflation rate in Europeans countries	3.3%	3.1%	3.1%	3.1%	3.0%
Discount rate, %	8.9%-19.0%	8.9%-19.0%	8.9%-19.0%	8.9%-19.0%	8.9%-19.0%
For the year ended December 31, 2017	**2018**	**2019**	**2020**	**2021**	**2022**
Inflation rate in Russia	4.0%	4.0%	4.0%	4.0%	4.0%
Inflation rate in Europeans countries	2.9%	2.9%	2.9%	2.8%	2.8%
Discount rate, %	9.19%-17.72%	9.19%-17.72%	9.19%-17.72%	9.19%-17.72%	9.19%-17.72%

For CGUs which cash flows relate to mineral assets, future cash flows include estimates of recoverable minerals that will be obtained from proved and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by 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, no impairment loss as of December 31, 2017 was recognized.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2016 was recognized in the following CGU:

Cash generating units	**Impairment loss on goodwill at December 31, 2016**
Bratsk Ferroalloy Plant (BFP)	2,930
Total	**2,930**

Impairment of goodwill at BFP was recognized due to the changes in expectations of long-term prices for ferrosilicon and in forecasted production volumes accompanied by the increased forecasted costs.

Impairment of non-current assets

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2017:

Cash generating units	**Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2017**
Korshunov Mining Plant (KMP)	2,271
Izhstal	2,130
Bratsk Ferroalloy Plant (BFP)	151
Total	**4,552**

The carrying value of property, plant and equipment and the mineral licenses at KMP of RUB 1,631 million and RUB 640 million, respectively, was written down to nil as of December 31, 2017 due to the decline in long-term forecast for iron ore prices, increase in transportation cost per tonne and growth of stripping costs required for removal of landslide deformations. Impairment of non-current assets at Izhstal of RUB 2,130 million was caused by significant increase in production costs for raw materials, specifically by increase in purchase price for electrodes expected to be maintained for a long-term period. The remaining carrying value of the property, plant and equipment of Izhstal was 2,871 RUB million. Impairment of property, plant and equipment at BFP of RUB 151 million was recognized due to the extension of planned period of furnace shutdown for compulsory repair works. The remaining carrying value of the property, plant and equipment and mineral licenses of BFP was RUB 1,258 million.

The carrying value of individual items of the non-current assets for the respective entity was impaired due to the decline by the regulatory authorities to extend the term of mineral license for exploration and extraction:

Subsidiaries	**Impairment loss on non-current assets identified for individual items of assets at December 31, 2017**
Southern Kuzbass Coal Company (SKCC)	1,529
Total	**1,529**

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2016:

Cash generating units	**Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2016**
Bratsk Ferroalloy Plant (BFP)	697
Mechel Service Romania	203
Total	**900**

The carrying value of individual items of the assets for the respective entities was impaired due to inability to generate economic benefits:

Subsidiaries	**Impairment loss on non-current assets identified for individual items of assets at December 31, 2016**
Yakutugol	572
Port Temryuk	389
Southern Kuzbass Coal Company (SKCC)	277
Maritime Cargo Shipping.	98
Cognor	36
Total	**1,372**

Sensitivity analysis

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

Based on the sensitivity analysis carried out as of December 31, 2017, a 5% decrease in future planned revenues would trigger impairment of goodwill of RUB 2,279 million at Southern Kuzbass Power Plant, additional impairment of property, plant and equipment and mineral licenses at BFP of RUB 1,258 million, impairment of property, plant and equipment of RUB 2,651 million at Izhstal.

For the cash-generating units, which were not impaired in the reporting period and for which the reasonably possible changes could lead to impairment, the recoverable amounts would become equal to their carrying amounts if the assumptions used to measure the recoverable amounts changed by the following percentages: increase in discount rate by 1% or decrease in sales prices by 2.8% at Elga coal deposit, decrease in sales prices by 0.9% at Southern Kuzbass Power Plant and decrease in growth rate by 1.3% at Southern Kuzbass Power Plant. The recoverable amounts of Elga coal deposit and Southern Kuzbass Power Plant based on initial key assumptions exceed the carrying amounts by RUB 33,558 million and RUB 473 million, respectively.

Reasonably possible changes in other key assumptions used in assessing recoverable amount of CGUs as of December 31, 2017 do not lead to excess of carrying value over recoverable amount.

Based on the sensitivity analysis carried out as of December 31, 2016, a 5% decrease in future planned revenues would trigger impairment of goodwill of RUB 1,026 million, property, plant and equipment of RUB 644 million at KPSC, additional impairment of property, plant and equipment at BFP of RUB 1,363 million and impairment of property, plant and equipment of RUB 1,996 million at Izhstal.

19. Trade and other payables

	December 31, 2017	December 31, 2016
Trade payables	18,999	21,335
Other payables	14,470	19,650
Total trade and other payables	**33,469**	**40,985**

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

	December 31, 2017	December 31, 2016
Other payables		
Accounts payable for fixed assets	2,774	2,964
Salaries payable	1,504	1,475
Accruals for breach of contract terms	176	745
Dividends payable, common shares	152	–
Dividends payable, preferred shares	86	–
Other	9,778	14,466
Total	**14,470**	**19,650**

The balance of other payables includes payables for the acquisition of DEMP of RUB 4,010 million and RUB 8,032 million as of December 31, 2017 and 2016, respectively.

20. Income tax

The major components of income tax (expense) benefit for the years ended December 31, 2017, 2016 and 2015 are:

Recognised in profit or loss	**2017**	**2016**	**2015**
Current income tax			
Current income tax charge	(3,397)	(555)	(361)
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position	(3,154)	766	(15)
Deferred tax			
Relating to origination and reversal of temporary differences	3,401	(5,104)	(7,946)
Income tax expense reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	**(3,150)**	**(4,893)**	**(8,322)**

In January 2013, the Group created the consolidated group of taxpayers in accordance with 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 were met as of December 31, 2017 and 2016. In 2015-2017, the consolidated group of taxpayers consisted of 20 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. On October 2, 2017, an Additional Agreement was signed to extend the term of the consolidated group of taxpayers contract for an indefinite period.

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*.

During 2015-2017, income tax was calculated at 20% of taxable profit in Russia, at 10.5%-11% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan and at 18% in Ukraine. The Group's subsidiaries incorporated in British Virgin Islands are exempt from profit tax. Amendments in the tax legislation of the United Kingdom resulted in the decrease in tax rate from 20% since April 1, 2015 to 19% since April 1, 2017.

The reconciliation between the income tax (expense) benefit 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 consolidated financial statements is as follows:

	2017	2016	2015
Profit (loss) before tax from continuing operations	**15,720**	**14,151**	**(107,128)**
Income tax (expense) benefit at statutory income tax rate of 20%	**(3,144)**	**(2,830)**	**21,426**
Adjustments:			
Adjustments in respect of income tax , including income tax penalties and changes in uncertain income tax position.	(3,154)	766	(15)
Unrecognized current year tax losses and write-off of previously recognized asset on tax losses	4,783	513	(19,822)
Non-deductible expenses for tax purposes	(1,755)	(1,317)	(4,341)
Non-deductible interest expense	(254)	(1,055)	(2,588)
Effect of non-deductible penalties on breach of covenants in credit agreements	112	(1,152)	(3,025)
Effect of different tax rates in foreign jurisdictions	262	182	26
Effect of the disposal of subsidiaries	–	–	17
At the effective income tax rate of 20,0% (34.6% in 2016, 7.8% in 2015) income tax expense reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	**(3,150)**	**(4,893)**	**(8,322)**

The deferred tax balances were calculated by applying the currently enacted statutory income 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 schedule of payments was agreed with the tax authorities for the period till May 2017. During 2016, the Group did not meet this schedule of payments and a new payment schedule agreed with the tax authorities was signed in December 2016. As of December 31, 2016, the outstanding amount payable was RUB 2,160 million (not overdue) including long-term part RUB 540 million. As of December 31, 2017, the outstanding amount payable was RUB 540 million (not overdue).

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

	January 1, 2015	Tax (expense) benefit 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 and 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 and 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)**

	January 1, 2016	Tax (expense) benefit during the period recognised in profit or loss	Foreign currency translation effect	December 31, 2016
Deferred tax assets				
Property, plant and equipment	1,055	(378)	−	677
Rehabilitation provision	510	184	−	694
Inventory	73	134	(14)	193
Accounts receivable	258	(94)	(4)	160
Bad debt allowance	854	(159)	(24)	671
Loans and borrowings	224	(106)	−	118
Finance lease liabilities	1,508	(389)	2	1,121
Accounts payable and other liabilities	763	(70)	7	700
Net operating loss carry-forwards	10,611	(5,807)	(89)	4,715
Other	324	(264)	(1)	59
Deferred tax liabilities				
Property, plant and equipment	(16,199)	497	37	(15,665)
Mineral licenses	(7,701)	485	−	(7,216)
Rehabilitation provision	(8)	1	−	(7)
Inventory	(604)	(83)	3	(684)
Accounts receivable	(47)	41	−	(6)
Bad debt allowance	(177)	59	−	(118)
Loans and borrowings	(454)	350	1	(103)
Accounts payable and other liabilities	(113)	74	1	(38)
Other	(475)	421	3	(51)
Deferred tax assets (liabilities), net	**(9,598)**	**(5,104)**	**(78)**	**(14,780)**

	January 1, 2017	Tax benefit (expense) during the period recognised in profit or loss	Foreign currency translation effect	December 31, 2017
Deferred tax assets				
Property, plant and equipment	677	81	1	759
Rehabilitation provision	694	108	−	802
Inventory	193	(9)	(5)	179
Accounts receivable	160	26	−	186
Bad debt allowance	671	(118)	(4)	549
Loans and borrowings	118	195	−	313
Finance lease liabilities	1,121	(138)	−	983
Accounts payable and other liabilities	700	(31)	(13)	656
Net operating loss carry-forwards	4,715	3,248	9	7,972
Other	59	26	1	86
Deferred tax liabilities				
Property, plant and equipment	(15,665)	(193)	(11)	(15,869)
Mineral licenses	(7,216)	564	−	(6,652)
Rehabilitation provision	(7)	−	−	(7)
Inventory	(684)	(117)	−	(801)
Accounts receivable	(6)	(18)	−	(24)
Bad debt allowance	(118)	(189)	1	(306)
Loans and borrowings	(103)	(9)	−	(112)
Accounts payable and other liabilities	(38)	−	−	(38)
Other	(51)	(25)	2	(74)
Deferred tax assets (liabilities), net	**(14,780)**	**3,401**	**(19)**	**(11,398)**

Recognised in the consolidated statement of financial position information

	December 31, 2017	December 31, 2016
Deferred tax assets	96	1,502
Deferred tax liabilities	(11,494)	(16,282)
Deferred tax liabilities, net	**(11,398)**	**(14,780)**

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 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 35,161 million (2016: RUB 38,068 million) on losses in the amount of RUB 194,659 million (2016: RUB 208,748 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 realizable in the future, are mostly related to the Russian subsidiaries.

The Group does not recognize deferred tax assets for accumulated tax losses received before joining the consolidated group of taxpayers.

In case when companies with accumulated tax loss before joining the consolidated group of taxpayers come out of the consolidated group of taxpayers or the law changes, in case there is a probability of obtaining sufficient taxable profit, deferred tax assets for accumulated tax losses before joining the consolidated group of taxpayers will be recognised.

A deferred tax liability of approximately RUB 210 million and RUB 288 million as of December 31, 2017 and 2016, 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, as of December 31, 2017 and 2016, no deferred tax liability has 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.

Probable income tax risks of RUB 3,139 million and RUB 162 million as of December 31, 2017 and 2016, respectively, have been recorded in the Group's consolidated financial statements. Due to changes in the Russian tax legislation effective January 1, 2017, calculation of the consolidated tax base of the consolidated group of taxpayers and the way to offset current losses and losses received in the previous tax periods (before January 2017) were changed. Due to the absence of official explanations of the regulatory authorities concerning changes through 2017, there is an uncertainty in the interpretation.

Possible income tax risks of RUB 794 million and RUB 1,119 million as of December 31, 2017 and 2016, respectively, have not been recognised in the Group's consolidated financial statements.

21. Taxes and similar charges payable other than income tax

	December 31, 2017	December 31, 2016
VAT payable	3,313	4,274
Payroll taxes	2,010	3,029
Property tax	504	920
Land lease	433	342
Mineral extraction tax	189	277
Land tax	153	223
Other	94	130
Total	**6,696**	**9,195**

22. 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 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 non-state retirement pensions, which are conditional on 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 benefits upon reaching retirement age. 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 non-state pension plans.

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 also provides 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.

Prior to June 2016, majority of the Group's entities contributed certain amounts of cash to non-state pension fund Mechel Fund, to invest pensions of its participants. Pursuant to the agreements between the Group and this non-state pension fund, under certain circumstances, assets from contributions were not effectively restricted from possible withdrawal by the employer. Based on this fact, these assets were not qualified as "plan assets" under IFRS and these pension plans were considered to be fully unfunded. On June 22, 2016, Mechel Fund stopped all operations after cancellation by the Russian regulator of its license for the activity on pension and pension insurance. In the second half of 2016, the Group voluntarily started to make payments to pensioners retired after June 22, 2016 until the new pension fund would be selected by the Group.

As of December 31, 2017, there were 48,920 active participants under the defined benefit pension plans and other long-term benefit plans and 39,427 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2016 and January 1, 2016, the related figures were 50,369 and 54,866 of active participants under the defined benefit pension plans and other long-term benefits and 39,551 and 39,201 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.

Actuarial valuation of pensions and other long-term benefits for the major subsidiaries was performed in February 2018, with the measurement date of December 31, 2017. 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.

As of December 31, 2017, defined benefit obligations, including pension obligations in the amount of RUB 4,052 million and other long-term benefit obligations in the amount of RUB 309 million (RUB 3,640 million and 805 million as of December 31, 2016, respectively), were presented within Pension obligations in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligations and other long-term benefits and fair value of plan assets for 2015 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
January 1, 2015	**(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)**

Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2016 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2015	**(5,184)**	**318**	**(4,866)**
Current service cost	(149)	–	(149)
Net interest expense	(381)	13	(368)
Curtailment / settlement gain	272	–	272
Remeasurement of pension obligations	53	–	53
Past service cost	(5)	–	(5)
Sub-total included in profit or loss	**(210)**	**13**	**(197)**
Benefit paid	357	(16)	341
Exchange difference	363	(63)	300
Actuarial changes arising from changes in demographic assumptions	80	–	80
Actuarial changes arising from changes in financial assumptions	(397)	–	(397)
Experience adjustments	294	–	294
Sub-total included in OCI	**340**	**(63)**	**277**
December 31, 2016	**(4,697)**	**252**	**(4,445)**

Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2017 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2016	**(4,697)**	**252**	**(4,445)**
Current service cost	(142)	–	(142)
Net interest expense	(331)	17	(314)
Curtailment / settlement gain	1	–	1
Remeasurement of pension obligations	174	–	174
Past service cost	–	–	–
Sub-total included in profit or loss	**(298)**	**17**	**(281)**
Benefit paid	313	(17)	296
Exchange difference	(95)	19	(76)
Actuarial changes arising from changes in demographic assumptions	51	–	51
Actuarial changes arising from changes in financial assumptions	(69)	–	(69)
Experience adjustments	163	–	163
Sub-total included in OCI	**50**	**19**	**69**
December 31, 2017	**(4,632)**	**271**	**(4,361)**

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

	December 31, 2017	December 31, 2016
Current liabilities	(849)	(944)
Non-current liabilities	(3,512)	(3,501)
Total net pension obligations	**(4,361)**	**(4,445)**

The plan asset allocation of the investment portfolio was as follows as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Debt instruments	147	142
Equity instruments	78	64
Cash and cash equivalents	25	23
Property	11	9
Other assets	10	14
Total plan assets	**271**	**252**

The investment strategy employed 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 Group's entities have a practice to provide lump-sum financial support to former employees as well as certain life-long benefits, so there is a risk of human longevity . This risk is controlled by using most recent life expectancy tables. The risk of a significant fluctuation in interest rates is offset by actuarial best estimate 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 the whole defined benefit obligation and other long-term benefits obligation in different actuarial assumptions and comparing the results. There are no changes from the previous period in the methods and set of assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation and other long-term benefits obligation is about 11 years at both reporting dates.

The key actuarial assumptions used to determine defined benefit obligations were as follows as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Discount rate		
Russian entities	7.6%	8.5%
German entities	1.80%	1.50%
Ukrainian entity	10.10%	11.10%
Austrian entities	1.50%	1.50%
Inflation rates		
Russian entities	4.40%	5.00%
Ukrainian entity	8.60%	8.60%
Rate of compensation increase		
Russian entities	5.40%	6.00%
German entities	4.00%	4.00%
Ukrainian entity	11.60%	11.60%
Austrian entities	2.25%	2.25%

The results of sensitivity analysis of defined benefit obligations for the Russian and Ukrainian entities as of December 31, 2017 and 2016 are presented below:

	2017	2016
Discount rate		
1% increase	-8.12%	-7.73%
1% decrease	9.64%	9.13%
Inflation rate		
1% increase	6.48%	5.93%
1% decrease	-5.42%	-5.00%
Rate of compensation increase		
1% increase	2.72%	2.76%
1% decrease	-2.28%	-2.51%
Turnover rate		
3% increase	-5.29%	-5.20%
3% decrease	7.25%	7.07%

The results of sensitivity analysis of defined benefit obligations for Austrian entities as of December 31, 2017 and 2016 are presented below:

	2017	2016
Discount rate		
1% increase	-9.70%	-10.10%
1% decrease	11.70%	12.20%

The results of sensitivity analysis of defined benefit obligations for German entities as of December 31, 2017 and 2016 are presented below:

	2017	2016
Discount rate		
1% increase	-12.00%	-12.00%
1% decrease	18.00%	18.00%

The sensitivity analyses above have been prepared based on a method that extrapolates the impact on the defined benefit pension obligations and other long-term benefits obligations 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 one significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation and other long-term benefits obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The following payments are expected contributions to the defined benefit plan and other long-term benefits in the future years:

	December 31, 2017
Within the next 12 months (next annual reporting period)	849
Between 2 and 5 years	1,238
Between 5 and 10 years	1,340
Beyond 10 years	515
Total expected payments	**3,942**

23. Provisions

	Rehabilitation provision	Provisions for legal claims	Provisions for taxes other than income tax	Other provisions	Total
At December 31, 2014	**3,199**	**1,089**	**620**	**220**	**5,128**
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 differences	–	–	104	49	**153**
At December 31, 2015	**3,704**	**1,572**	**480**	**215**	**5,971**
Current	**265**	**1,572**	**480**	**215**	**2,532**
Non-current	**3,439**	**–**	**–**	**–**	**3,439**
Arising during the year	256	533	413	1,678	**2,880**
Utilized	(52)	(885)	(14)	(118)	**(1,069)**
Revision in estimated cash flow	(511)	–	–	–	**(511)**
Unused amounts reversed	–	(474)	(31)	–	**(505)**
Discount rate adjustment and imputed interest	281	–	–	–	**281**
Exchange differences	–	–	(88)	(43)	**(131)**
At December 31, 2016	**3,678**	**746**	**760**	**1,732**	**6,916**
Current	**258**	**746**	**760**	**1,732**	**3,496**
Non-current	**3,420**	**–**	**–**	**–**	**3,420**
Arising during the year	311	2,175	23	7	**2,516**
Utilized	(79)	(451)	(1)	(905)	**(1,436)**
Revision in estimated cash flow	(339)	–	–	–	**(339)**
Unused amounts reversed	–	(180)	(232)	(551)	**(963)**
Discount rate adjustment and imputed interest	421	–	–	–	**421**
Exchange differences	–	–	26	32	**58**
At December 31, 2017	**3,992**	**2,290**	**576**	**315**	**7,173**
Current	**178**	**2,290**	**576**	**315**	**3,359**
Non-current	**3,814**	**–**	**–**	**–**	**3,814**

Rehabilitation provision

The Group has numerous site rehabilitation obligations 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 in a foreseeable future, and will be funded from the general Group's resources when respective works will be performed. 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

As of December 31, 2016, management assessed the outflow of resources embodying economic benefits as possible for the claims of Minmetals Engineering Co. Ltd ("Minmetals") to the Group. Minmetals sued CMP for work performed of $143 million (RUB 8,675 million at exchange rate as of December 31, 2016). CMP issued a claim to Minmetals in the amount of $58 million (RUB 3,492 million at exchange rate as of December 31, 2016) and 4 million euro (RUB 267 million at exchange rate as of December 31, 2016).

As of December 31, 2017, management's estimation in respect of claims from Minmetals changed because of negative court judgment and therefore provision was recognized in the amount of $18 million (RUB 1,045 million at the exchange rate as of December 31, 2017).

The Group is subject to various other lawsuits, claims and proceedings related to matters incidental to the business. Accruals for 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 actual effectiveness of such strategies.

Provisions on taxes other than income tax

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 recorded RUB 576 million and RUB 760 million of other tax claims that management believes are probable as of December 31, 2017 and 2016, respectively.

The Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2017.

24. 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 issued, outstanding and fully paid 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

As of December 31, 2017 and 2016, the Group had 138,756,915 preferred shares with a nominal value of 10 Russian rubles each, authorized and issued under the Russian law and representing 25% of the Mechel PAO's share capital, of which 83,254,149 shares were outstanding, and the remaining 55,502,766 shares were kept as treasury stock by one of the Group's subsidiaries. Under the Russian law and the Mechel PAO's Charter, these preferred shares are non-cumulative and have no voting rights, except cases, stipulated by the law, including, when dividends are not paid in the year. The dividend yield paid per one preferred share is also fixed by the Charter and amounts to 20% of the consolidated annual net profit of the Group under IFRS divided by 138,756,915 issued preferred shares.

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 company (Russian or foreign) of the dividend payer for a period over one year and the residence of the dividend distribution foreign company is not included into the Ministry of Finance offshore list. Herewith 0% tax rate is not applicable to the income received by foreign entities that are recognized as Russian residents in accordance with the Russian Tax Code.

On June 30, 2017, the Group's subsidiaries declared dividends attributable to non-controlling interests of RUB 359 million and Mechel declared dividends of RUB 856 million (RUB 10.28 per preferred share) to the holders of preferred shares for 2016.

On June 30, 2016, one of the Group's subsidiaries declared dividends attributable to non-controlling interests of RUB 3 million and Mechel declared dividends of RUB 4 million (RUB 0.05 per preferred share) to the holders of preferred shares for 2015.

On June 30, 2015, one of the Group's subsidiaries declared a dividends attributable to non-controlling interests of RUB 0,3 million and Mechel declared dividends of RUB 4 million (RUB 0.05 per preferred share) to the holders of preferred shares for 2014.

Additional-paid-in-capital

In 2017, additional-paid-in-capital was decreased by RUB 3,948 million due to the acquisition of non-controlling interests of 2.53% and 0.21% in certain Group's subsidiaries with the negative carrying value of RUB 590 million.

In 2015, additional-paid-in-capital was increased by RUB 2,730 million due to the acquisition of non-controlling interests of 22.95%, 0.04% and 0.39% 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 profit (loss) for the year attributable to common equity holders of the parent by the weighted average number of common shares outstanding during the year.

	2017	2016	2015
Net profit (loss) from continuing operations	12,570	9,258	(115,450)
Less: net profit from continuing operations attributable to non-controlling interests	1,013	1,771	458
Net income (loss) attributable to common equity shareholders of Mechel PAO from continuing operations	**11,557**	**7,487**	**(115,908)**
Net (loss) profit from discontinued operations	–	(426)	822
Less: net profit from discontinued operations attributable to non-controlling interests	–	(65)	77
Net profit (loss) attributable to common equity shareholders of Mechel PAO from discontinued operations	**–**	**(361)**	**745**
Profit (loss) attributable to common equity holders	**11,557**	**7,126**	**(115,163)**

There were no dilutive securities issued for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
Profit (loss) per share total (Russian rubles per share), including:	**27.76**	**17.12**	**(276.65)**
- from continuing operations (Russian rubles per share)	27.76	17.99	(278.44)
- from discontinued operations (Russian rubles per share)	–	(0.87)	1.79

25. Other income/expenses

25.1 Administrative and other operating expenses

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

	2017	2016	2015
Wages, salaries and social security costs	7,769	11,654	9,382
Provision for legal claims, net	1,995	59	996
Office expenses	1,211	1,397	1,333
Audit and consulting services	631	569	570
Depreciation	605	716	690
Social expenses	406	452	387
Fines and penalties related to business contracts	303	487	236
Consumables	276	411	437
Banking charges and services	271	268	168
Rent	165	259	259
Business trips	132	136	165
Write off of accounts receivable	109	113	247
Loss from disposal of property, plant and equipment	34	57	806
Other	1,683	2,213	1,624
Total	**15,590**	**18,791**	**17,300**

25.2 Employee benefits expense

Employee benefits expenses are comprised of the following:

	2017	2016	2015
Included in cost of sales			
Wages and salaries	20,591	19,806	19,867
Social security costs	6,438	5,909	6,181
Post-employment benefits	142	126	157
Included in selling and distribution expenses			
Wages and salaries	3,686	4,029	3,966
Social security costs	973	1,015	1,024
Post-employment benefits	–	–	–
Included in administrative and other operating expenses			
Wages and salaries	6,259	9,510	7,631
Social security costs	1,510	2,144	1,751
Total	**39,599**	**42,539**	**40,577**

25.3 Other operating income

Other operating income is comprised of the following:

	2017	2016	2015
Subsidies received from the governmental authorities as a compensation for operating activities (energy tariffs)	496	–	–
Income from fines and penalties related to business contracts	307	248	–
Gain from sales of scrap materials	226	190	184
Curtailment and remeasurement of pension obligations	175	392	142
Revision in estimated cash flows of rehabilitation provision	–	375	47
Insurance compensation	–	153	–
Other operating income	183	495	–
Total	**1,387**	**1,853**	**373**

In 2017, the Group recognized gain on remeasurement of pension obligations because of changing in the actuarial assumptions, fluctuation in payment amounts from year to year, adjustment in the financial support amount per one pensioner. In 2016, the Group recognized curtailment gain on cancellation of the certain pension programs for workers of Yakutugol, Mechel-Remservice OOO.

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

25.4 Finance income

Finance income is comprised of the following:

	2017	2016	2015
Waiving of fines and penalties on loans and finance leases	264	992	–
Interest income from investments	158	177	134
Remeasurement of fair value of financial instruments (Note 11.5)	197	–	–
Income from the discounting of financial instruments	14	7	49
Total	**633**	**1,176**	**183**

Waiving of fines and penalties on loans and finance leases were recognised due to the debt restructuring primarily with Sberbank.

25.5 Finance costs

Finance costs are comprised of the following:

	2017	2016	2015
Interest on loans and borrowings	(40,298)	(44,164)	(38,664)
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	(1,086)	(5,538)	(18,525)
Finance charges payable under finance leases	(1,230)	(1,500)	(1,673)
Fines and penalties on overdue finance leases	(75)	(475)	(642)
Total finance costs related to loans, borrowings and finance leases	**(42,689)**	**(51,677)**	**(59,504)**
Interest expenses under pension liabilities	(314)	(368)	(400)
Expenses related to discounting of financial instruments	(4,179)	(1,956)	(175)
Remeasurement of fair value of financial instruments (Note 11.5)	(117)	–	–
Unwinding of discount on provisions	(311)	(239)	(373)
Total	**(47,610)**	**(54,240)**	**(60,452)**

The interest on loans and borrowings includes fines and penalties on overdue loans and borrowing payments and overdue interest payments of RUB 1,086 million, RUB 5,538 million and RUB 18,525 million for 2017, 2016 and 2015, respectively. The finance charges payable under finance leases include fines and penalties on overdue finance lease payments of RUB 75 million, RUB 475 million and RUB 642 million for 2017, 2016 and 2015, respectively. Expenses related to discounting of financial instruments include changes in the measurement of the non-current obligation related to put-option granted on non-controlling interests in the amount of RUB 4,062 million (2016: RUB 1,898 million) (Note 6 and Note 11.4).

25.6 Other income and other expenses

Other income is comprised of the following:

	2017	2016	2015
Gain on accounts payable with expired legal term	516	115	222
Gain on royalty and other proceeds associated with disposal of Bluestone	474	121	–
Gain on accounts payable forgiveness and restructuring	447	–	–
Dividends received	–	3	8
Gain on sale of investments in equity securities	2	–	–
Gain on final settlements from subsidiaries' disposal occurred in previous years	–	194	–
Other income	56	165	112
Total	**1,495**	**598**	**342**

Other expenses are comprised of the following:

	2017	2016	2015
Loss on sales and purchases of foreign currencies	(114)	(130)	(273)
VEB commissions write off	–	(1,411)	–
Provision on non-recoverable advances to pension funds	–	(408)	–
Loss on sale of investments in equity securities	–	(8)	–
Loss from disposal of subsidiaries	–	–	(19)
Other expenses	(106)	(46)	(55)
Total	**(220)**	**(2,003)**	**(347)**

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.

The upfront fee in the amount of RUB 1,411 million paid in 2014 to VEB for the opening of the credit line was written off in 2016 due to uncertainty in further financing.

26. 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, hardware, rails, balks and 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.

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 consolidated financial statements therefore no reconciliation between segment information and consolidated assets, liabilities and operating results is performed.

As of December 31, 2017 and for the year then ended	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenues from external customers	100,129	172,760	26,224	–	**299,113**
Inter-segment revenues	42,286	7,622	16,338	(66,246)	–
Gross profit	93,464	34,013	12,724	(1,444)	**138,757**
Gross margin, %	65.6	18.9	29.9	–	**46.4**
Depreciation and depletion	(7,979)	(5,800)	(448)	–	**(14,227)**
Loss on write-off of non-current assets	(135)	(145)	(41)	–	**(321)**
Impairment of goodwill and non-current assets	(3,800)	(2,281)	–	–	**(6,081)**
Operating profit	48,190	9,154	1,267	(1,444)	**57,167**
Share of profit (loss) of associates, net	18	–	–	–	**18**
Finance income	475	150	8	–	**633**
Intersegment finance income	1,335	567	49	(1,951)	–
Finance cost	(34,324)	(12,793)	(493)	–	**(47,610)**
Intersegment finance cost	(222)	(1,342)	(387)	1,951	–
Income tax expense	(2,023)	(800)	(327)	–	**(3,150)**
Profit (loss) for the year	18,596	(4,712)	130	(1,444)	**12,570**
Segment assets	208,585	100,128	10,414	–	**319,127**
Segment liabilities	368,283	185,074	9,903	–	**563,260**
Investments in associates	283	–	–	–	**283**
Goodwill	14,367	556	3,408	–	**18,331**
Capital expenditures	(5,852)	(1,329)	(321)	–	**(7,502)**

As of December 31, 2016 and for the year then ended	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenues from external customers	89,647	161,639	24,723	–	**276,009**
Inter-segment revenues	31,907	7,254	15,903	(55,064)	–
Gross profit	76,515	42,148	11,578	(554)	**129,687**
Gross margin, %	62.9	25.0	28.5	–	**47.0**
Depreciation and depletion	(7,912)	(5,435)	(367)	–	**(13,714)**
Loss on write-off of non-current assets	(863)	(1,089)	(1)	–	**(1,953)**
Impairment of goodwill and non-current assets	(1,336)	(3,866)	–	–	**(5,202)**
Operating profit	31,012	11,531	701	(554)	**42,690**
Share of profit (loss) of associates, net	(17)	–	–	–	**(17)**
Finance income	1,082	93	1	–	**1,176**
Intersegment finance income	1,401	2,141	53	(3,595)	–
Finance cost	(37,615)	(16,015)	(610)	–	**(54,240)**
Intersegment finance cost	(1,731)	(1,396)	(468)	3,595	–
Loss after tax for the year from discontinued operations, net	–	(406)	(20)	–	**(426)**
Income tax (expense) benefit	(5,019)	265	(139)	–	**(4,893)**
Profit (loss) for the year	2,309	7,455	(378)	(554)	**8,832**
Segment assets	210,028	104,550	10,887	–	**325,465**
Segment liabilities	375,938	191,058	11,057	–	**578,053**
Investments in associates	265	–	–	–	**265**
Goodwill	14,367	580	3,408	–	**18,355**
Capital expenditures	(3,958)	(1,206)	(360)	–	**(5,524)**

As of December 31, 2015 and for the year then ended	Mining	Steel	Power	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 and depletion	(9,106)	(4,651)	(328)	–	**(14,085)**
Loss on write-off of non-current assets	(199)	(492)	–	–	**(691)**
Impairment of goodwill and non-current assets	–	(16)	(1,444)	–	**(1,460)**
Operating profit	16,004	8,527	39	(318)	**24,252**
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**
Income tax (expense) benefit	(5,630)	(2,795)	103	–	**(8,322)**
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)**

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.

	2017	2016	2015
Domestic			
Russia	176,906	164,361	146,701
Other	23,445	22,252	20,817
Total	**200,351**	**186,613**	**167,518**
Export	98,762	89,396	85,623
Total revenue	**299,113**	**276,009**	**253,141**

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 were as follows:

	2017	2016	2015
Russia	177,005	164,412	146,754
Asia	63,182	54,114	40,119
Europe	36,605	34,126	39,019
CIS	19,346	18,630	20,231
Middle East	2,212	1,536	4,222
USA	286	707	581
Other regions	477	2,484	2,215
Total	**299,113**	**276,009**	**253,141**

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, 2017	December 31, 2016
Russia	228,825	238,175
Germany	1,407	1,415
Austria	589	581
Czech Republic	216	206
Romania	41	40
Other	37	35
Total	**231,115**	**240,452**

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 of the Group's revenues from external customers by major products:

	2017	2016	2015
Mining segment			
Coal and middlings	84,341	75,258	64,186
Coke and chemical products	13,747	11,330	11,756
Iron ore concentrate	220	126	1,844
Other	1,821	2,933	2,846
Total	**100,129**	**89,647**	**80,632**
Steel segment			
Long steel products	96,768	89,575	73,853
Hardware	27,578	24,580	23,443
Flat steel products	22,505	18,230	17,490
Forgings and stampings	12,247	11,652	12,166
Semi-finished steel products	492	3,434	5,027
Ferrosilicon	2,807	3,368	3,528
Steel pipes	2,733	3,286	3,308
Other	7,630	7,514	7,217
Total	**172,760**	**161,639**	**146,032**
Power segment			
Electricity	24,297	22,527	24,524
Other	1,927	2,196	1,953
Total	**26,224**	**24,723**	**26,477**
Total revenue	**299,113**	**276,009**	**253,141**

27. 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, 2017 and 2016, the total Group's contractual commitments to acquire property, plant and equipment amounted to RUB 19,393 million and RUB 21,932 million, respectively.

Operating lease commitments

The Group has entered into operating property and land leases with lease terms between 2018 and 2066. Property and land lease expenses amounted to RUB 1,875 million and RUB 1,829 million for the years ended December 31, 2017 and 2016, respectively. Future minimum rentals payable under non-cancellable operating leases as of December 31, 2017 are, as follows:

	December 31, 2017
Within one year	5,132
After one year but not more than five years	8,757
More than five years	56,433
Total rentals payable	**70,322**

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

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 were as follows:

	Minimum payments		Present value of payments	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Payable in 1 year	8,700	12,312	7,476	10,175
Payable in 2 years	633	280	457	225
Payable in 3 years	584	106	458	74
Payable in 4 years	557	83	481	64
Payable in 5 years and thereafter	526	61	482	58
Total minimum lease payment	**11,000**	**12,842**	**9,354**	**10,596**
Less amounts representing finance charges	(1,646)	(2,246)	–	–
Present value of finance lease liabilities	**9,354**	**10,596**	**9,354**	**10,596**
Current portion of finance lease liabilities			7,476	10,175
Non-current portion of finance lease liabilities			1,878	421

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 7.2% p.a. to 11.4% p.a. (U.S. dollar-denominated contracts), from 9.4% p.a. to 18.2% p.a. (euro-denominated contracts) and from 9.1% p.a. to 31.8% p.a. (Russian ruble-denominated contracts). Interest expense charged to the consolidated statements of profit (loss) and other comprehensive income (loss) in 2017 and 2016 amounted to RUB 1,230 million and RUB 1,500 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, 2017 and 2016, the Group was not in compliance with major Group's restrictive covenants. There was also a breach of restrictive covenants on overdue principal amount of RUB 158 million and RUB 417 million as of December 31, 2017 and 2016, respectively. As a result, the long-term finance lease liability of RUB 3,898 million and RUB 6,903 million was reclassified to short-term finance lease liabilities due to covenant violations as of December 31, 2017 and 2016, respectively.

The total amount of commitments under the signed lease contracts as of December 31, 2017 and 2016 is equal to RUB 75 million and RUB 103 million, respectively.

Contingencies

Legal claim contingency

The Group is involved in a number of court proceedings and claims arising out of the normal course of its business 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, 2017, management assesses the outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 15,959 million (primarily associated with the metallurgical plants as defined Note 9(b)) as possible based on the carefully processed analysis and strong arguments provided by legal advisers. In February 2018, the Group successfully sustained its position in the first court instance for the amount of RUB 12,700 million.

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 the Group's 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 598 million and RUB 647 million as of December 31, 2017 and 2016, respectively. 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. Russian tax authorities take 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. 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 the event that a taxpayer submits a revised tax declaration in which the stated amount of tax is less than the amount previously declared, tax audit of a taxpayer may be performed, but only with the respect to the changes in the tax declaration.

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

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 1,000 million since 2014.

In order to support the level of prices applied for the “controlled” transactions the Group should provide evidence that prices of “controlled” transactions are based on market prices and to prepare the reports for submission to the Russian tax authorities. Otherwise, the Russian tax authorities have the right to challenge the prices determined by the Group for such transactions and to charge additional taxes, penalties and fines. 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. 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.

The Group believes that it uses the market prices in “controlled” transactions and does not expect any claims of tax authorities related to the prices used in such transactions. However, due to the uncertainty and limited practice of the Russian legislation in the area of transfer pricing relevant tax claims may be raised and the respective effect is currently impossible to estimate.

In addition, in November 2014, the legislation of the Russian Federation has been significantly revised in order to prevent the misuse of low-tax jurisdictions for tax avoidance in the Russian Federation. Changes in the legislation set out the rules for the taxation of income of a foreign organization recognized as a controlled foreign corporation. The foreign organization is recognized as a controlled foreign corporation, if it is not a tax resident of the Russian Federation and the share of the controlling Russian entities or individuals in the organization is more than 25%. The transition period provides for a gradual reduction in the amount of non-taxable income of the controlled corporation RUB 50 million, RUB 30 million and RUB 10 million for 2015, 2016, 2017 and further respectively. The Russian tax law also provides for certain conditions under which the income of controlled corporations qualifies as tax exempt. Starting 2016, the taxable income of the controlling party is increased by the profits of the controlled foreign corporation earned in the financial year ended prior to the reporting year.

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 Assets*, the Group recorded RUB 576 million and RUB 760 million of other tax claims that management believes are probable, as of December 31, 2017 and 2016, respectively. In addition, income tax accrual was made under IAS 12 *Income Taxes* (Note 20). 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 consolidated financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2017.

Possible tax liabilities on taxes other than income tax, 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 1,354 million and 976 as of December 31, 2017 and 2016, respectively.

28. Events after the reporting period

The Group evaluated subsequent events from December 31, 2017 through the date the consolidated financial statements were issued and concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.