MECHEL

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2016

CONTENTS

Совершенствуя бизнес,
улучшаем мир

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Mechel PAO

We have audited the accompanying consolidated statements of financial position of Mechel PAO, a public joint stock company, and subsidiaries (hereinafter referred to as the "Group") as of December 31, 2016 and 2015, 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, 2016. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2016, 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 26, 2017 expressed an adverse opinion thereon.

Ernst & Young LLC

April 26, 2017

Moscow, Russia

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)
for the year ended December 31, 2016

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

	Notes	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Continuing operations				
Revenue	27	276,009	253,141	243,992
Cost of goods sold		(146,322)	(151,334)	(153,057)
Gross profit	27	**129,687**	**101,807**	**90,935**
Selling and distribution expenses		(56,233)	(51,117)	(55,661)
Loss on write-off of property, plant and equipment		(1,953)	(691)	(661)
Impairment of goodwill and other non-current assets	18	(5,202)	(1,460)	(7,996)
Allowance for doubtful accounts	12	(758)	(1,507)	(3,797)
Taxes other than income taxes		(5,913)	(5,853)	(6,469)
Administrative and other operating expenses	26.1	(18,791)	(17,300)	(16,315)
Other operating income	26.3	1,853	373	871
Total selling, distribution and operating income and (expenses), net		**(86,997)**	**(77,555)**	**(90,028)**
Operating profit		**42,690**	**24,252**	**907**
Finance income	26.4	1,176	183	107
Finance costs including fines and penalties on overdue loans and borrowings and finance leases payments of RUB 6,013 million, RUB 19,167 million and RUB 1,829 million for the periods ended December 31, 2016, 2015 and 2014, respectively	26.5	(54,240)	(60,452)	(28,110)
Foreign exchange gain (loss), net		25,947	(71,106)	(103,176)
Share of (loss) profit of associates, net of provision	8	(17)	–	7
Other income	26.6	598	342	664
Other expenses	26.6	(2,003)	(347)	(1,486)
Total other income and (expense), net		**(28,539)**	**(131,380)**	**(131,994)**
Income (loss) before tax from continuing operations		**14,151**	**(107,128)**	**(131,087)**
Income tax (expense) benefit	20	(4,893)	(8,322)	8,822
Income (loss) for the year from continuing operations		**9,258**	**(115,450)**	**(122,265)**
Discontinued operations				
(Loss) profit after tax for the year from discontinued operations, net	16	(426)	822	(11,702)
Profit (loss) for the year		**8,832**	**(114,628)**	**(133,967)**
Attributable to:				
Equity shareholders of Mechel PAO		7,126	(115,163)	(132,704)
Non-controlling interests		1,706	535	(1,263)

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) (continued)
for the year ended December 31, 2016

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

	Notes	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of income tax:		*430*	*295*	*1,170*
Exchange differences on translation of foreign operations		431	287	1,168
Net (loss) gain on available for sale financial assets		(1)	8	2
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods, net of income tax:		*(23)*	*(194)*	*(127)*
Re-measurement losses on defined benefit plans	23	(23)	(194)	(127)
Other comprehensive income for the year, net of tax		**407**	**101**	**1,043**
Total comprehensive income (loss) for the year, net of tax		**9,239**	**(114,527)**	**(132,924)**
Attributable to:				
Equity shareholders of Mechel PAO		7,529	(115,064)	(131,675)
Non-controlling interests		1,710	537	(1,249)
Earnings (loss) per share				
Weighted average number of common shares	25	416,270,745	416,270,745	416,270,745
Basic and diluted, profit (loss) for the year attributable to ordinary equity holders of the parent	25	17.12	(276.65)	(318.79)
Earnings (loss) per share from continuing operations (Russian rubles per share), basic and diluted	25	17.99	(278.44)	(289.96)
(Loss) earnings per share from discontinued operations (Russian rubles per share)	25	(0.87)	1.79	(28.83)

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2016

(All amounts are in millions of Russian rubles)

	Notes	December 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	11	1,689	3,079
Trade and other receivables	12	19,054	16,013
Inventories	14	35,227	35,189
Income tax receivables		686	603
Other current financial assets		167	45
Other current assets	15	6,942	8,191
Total current assets		**63,765**	**63,120**
Non-current assets			
Property, plant and equipment	17, 18	204,353	215,844
Mineral licenses	19	36,099	38,517
Non-current financial assets		235	194
Investments in associates	8	265	284
Deferred tax assets	20	1,502	1,492
Goodwill	18, 19	18,355	21,378
Other non-current assets	15	891	1,243
Total non-current assets		**261,700**	**278,952**
Total assets		**325,465**	**342,072**
Equity and liabilities			
Current liabilities			
Interest-bearing loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 38,594 million and RUB 47,475 million as of December 31, 2016 and 2015, respectively	10.1	434,165	491,674
Trade and other payables	21	40,985	54,602
Advances received		3,815	3,492
Provisions	22	3,496	2,532
Pension obligations	23	944	1,120
Finance lease liabilities	28	10,175	13,507
Income tax payable		2,552	5,549
Taxes and similar charges payable other than income tax	24	9,195	8,034
Other current liabilities		19	26
Total current liabilities		**505,346**	**580,536**
Non-current liabilities			
Interest-bearing loans and borrowings	10.1	11,644	4,308
Provisions	22	3,420	3,439
Pension obligations	23	3,501	3,746
Finance lease liabilities	28	421	481
Deferred tax liabilities	20	16,282	11,090
Other non-current liabilities		159	189
Other non-current financial liabilities	6	36,740	–
Income tax payables		540	137
Total non-current liabilities		**72,707**	**23,390**
Total liabilities		**578,053**	**603,926**
Equity			
Common shares	25	4,163	4,163
Preferred shares	25	833	833
Additional paid-in capital	25	28,326	28,322
Accumulated other comprehensive income		848	445
Accumulated deficit		(294,444)	(301,565)
Equity attributable to equity shareholders of Mechel PAO		**(260,274)**	**(267,802)**
Non-controlling interests	6, 7	7,686	5,948
Total equity		**(252,588)**	**(261,854)**
Total equity and liabilities		**325,465**	**342,072**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2016

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

		Attributable to equity holders of the parent									
		Common shares		Preferred shares							
	Notes	**Shares Quantity**	**Amount**	**Shares Quantity**	**Amount**	**Additional paid-in capital**	**Accumulated deficit**	**Accumulated other comprehensive (loss) income**	**Equity attributable to shareholders of Mechel PAO**	**Non-controlling interest**	**Total equity**
As of January 1, 2014		**416,270,745**	**4,163**	**83,254,149**	**833**	**25,591**	**(53,564)**	**(11)**	**(22,988)**	**9,500**	**(13,488)**
Loss for the period		–	–	–	–	–	(132,704)	–	**(132,704)**	(1,263)	**(133,967)**
Other comprehensive income (loss)											
Net gain on available for sale financial assets		–	–	–	–	–	–	2	**2**	–	**2**
Re-measurement losses on defined benefit plans	23	–	–	–	–	–	–	(141)	**(141)**	14	**(127)**
Exchange differences on translation of foreign operations		–	–	–	–	–	–	1,168	**1,168**	–	**1,168**
Total comprehensive (loss) income		**–**	**–**	**–**	**–**	**–**	**(132,704)**	**1,029**	**(131,675)**	**(1,249)**	**(132,924)**
Dividends declared to shareholders of Mechel PAO	25	–	–	–	–	–	(4)	–	**(4)**	–	**(4)**
Dividends declared to non-controlling interest	25	–	–	–	–	–	–	–	**–**	(2)	**(2)**
Disposal of non-controlling interest	6	–	–	–	–	1	–	–	**1**	4	**5**
As of December 31, 2014		**416,270,745**	**4,163**	**83,254,149**	**833**	**25,592**	**(186,272)**	**1,018**	**(154,666)**	**8,253**	**(146,413)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2016

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

	Notes	Common shares		Preferred shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Equity attributable to shareholders of Mechel PAO	Non-controlling interest	Total equity
		Shares Quantity	Amount	Shares Quantity	Amount	*Attributable to equity holders of the parent*					
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	23	–	–	–	–	–	–	(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	16	–	–	–	–	–	–	(798)	**(798)**	–	**(798)**
Transfer of actuarial gains (losses) due to disposal of discontinued operations	16	–	–	–	–	–	(126)	126	**–**	–	**–**
Dividends declared to shareholders of Mechel PAO	25	–	–	–	–	–	(4)	–	**(4)**	–	**(4)**
Dividends declared to non-controlling interest	25	–	–	–	–	–	–	–	**–**	–	**–**
Acquisition of non-controlling interest	6, 25	–	–	–	–	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, 2016

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

		Attributable to equity holders of the parent									
		Common shares		Preferred shares							
	Notes	**Shares Quantity**	**Amount**	**Shares Quantity**	**Amount**	**Additional paid-in capital**	**Accumulated deficit**	**Accumulated other comprehensive income (loss)**	**Equity attributable to shareholders of Mechel PAO**	**Non-controlling interest**	**Total equity**
As of January 1, 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	23	–	–	–	–	–	–	(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 shareholders of Mechel PAO	25	–	–	–	–	–	(5)	–	**(5)**	–	**(5)**
Dividends declared to non-controlling interest	25	–	–	–	–	–	–	–	–	(3)	**(3)**
Acquisition of non-controlling interest	6, 25	–	–	–	–	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 CASH FLOWS
for the year ended December 31, 2016

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

		Year ended December 31,		
	Notes	2016	2015	2014
Cash flows from operating activities				
Net profit (loss)		**8,832**	**(114,628)**	**(133,967)**
Loss (profit) from discontinuing operations, net of income tax		426	(822)	11,702
Net profit (loss) from continuing operations		9,258	(115,450)	(122,265)
Adjustments to reconcile net profit (loss) from continuing operations to net cash provided by operating activities:				
Depreciation		11,813	12,397	12,639
Depletion and amortization		1,901	1,688	1,790
Foreign exchange (gain) loss		(25,947)	71,106	103,176
Deferred income taxes	20	5,104	7,946	(15,525)
Allowance for doubtful accounts	12	758	1,507	3,797
Write-off of accounts receivable	26.1	113	247	185
Write-off of taxes receivable		–	–	1,605
Write-off of inventories to net realisable value	14	364	1,003	394
Revision in estimated cash flows of rehabilitation provision	26.3	(375)	(47)	(236)
Loss on write-off of property, plant and equipment	26.1	1,953	691	661
Impairment of goodwill and non-current assets	18	5,202	1,460	7,996
Loss on sale of property, plant and equipment		57	102	85
Gain on sale of investments	26.6	(186)	–	(483)
Gain on write-off of accounts payable with expired legal term	26.6	(115)	(222)	(37)
Curtailment and remeasurement of pension obligations	26.3	(325)	(142)	(58)
Pension service cost and actuarial loss, other related expenses	23	154	192	52
Finance income	26.4	(1,176)	(183)	(107)
Finance costs including fines and penalties on overdue loans and borrowings and finance leases payments of RUB 6,013 million, RUB 19,167 million and RUB 1,829 million for the periods ended December 31, 2016, 2015 and 2014, respectively	26.5	54,240	60,452	28,110
VEB commissions write-off	15	1,411	–	–
Provision for non-recoverable advances to pension funds	26.6	408	–	–
Other		(70)	480	1,492
Changes in working capital items:				
Trade and other receivables		(5,542)	4,597	2,130
Inventories		(1,070)	1,873	14,565
Trade and other payables		(4,259)	(8,125)	(1,710)
Advances received		588	(664)	62
Taxes payable and other current liabilities		2,368	(1,465)	8,771
Other current assets		(883)	997	(822)
Income taxes paid		(2,101)	(1,437)	(2,509)
Net operating cash flows of discontinued operations		(436)	(136)	(745)
Net cash provided by operating activities		**53,207**	**38,867**	**43,013**

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended December 31, 2016

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

	Notes	Year ended December 31, 2016	2015	2014
Cash flows from investing activities				
Proceeds from disposal of securities		–	143	538
Loans issued and other investments		(133)	(6)	(36)
Interest received		128	25	22
Royalty payments associated with disposal of Bluestone	16, 26.6	103	101	–
Proceeds from disposal of other subsidiaries		145	76	632
Purchases of available for sale securities		(4)	–	(113)
Proceeds from loans issued		31	15	151
Proceeds from disposals of property, plant and equipment		285	405	830
Purchases of property, plant and equipment		(4,742)	(5,076)	(11,365)
Purchases of mineral licenses and other related payments		–	(71)	–
Interest paid, capitalized		(782)	(830)	(5,141)
Net investing cash flows of discontinued operations		–	–	(12)
Net cash used in investing activities		**(4,969)**	**(5,218)**	**(14,494)**
Cash flows from financing activities				
Proceeds from borrowings		4,002	13,875	64,469
Repayment of borrowings		(42,322)	(11,896)	(77,761)
Dividends paid		(5)	(4)	(4)
Dividends paid to non-controlling interest		(2)	(1)	(6)
Interest paid		(33,872)	(28,910)	(14,963)
Acquisition of non-controlling interest in subsidiaries		–	(1)	(1,425)
Proceeds from sale of 49% share in Elga coal complex, with put-option granted	6	34,300	–	–
Repayment of obligations under finance lease		(3,238)	(2,677)	(1,863)
Sale leaseback proceeds		–	–	675
Net financing cash flows of discontinued operations		–	–	(105)
Deferred consideration paid for the acquisition of subsidiaries in prior periods	6	(4,732)	(4,819)	(3,223)
Net cash used in financing activities		**(45,869)**	**(34,433)**	**(34,206)**
Effect of exchange rate changes on cash and cash equivalents		(1,807)	331	901
Net increase (decrease) in cash and cash equivalents		**562**	**(453)**	**(4,786)**
Cash and cash equivalents at the beginning of period	11	3,079	4,074	8,979
Cash and cash equivalents net of overdrafts at the beginning of period	11	**891**	**1,344**	**6,130**
Cash and cash equivalents at the end of period	11	1,689	3,079	4,074
Cash and cash equivalents net of overdrafts at the end of period	11	**1,453**	**891**	**1,344**

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

1. Corporate information

(a) Information

Mechel PAO (“Mechel”, formerly – Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies owned by two individual shareholders (the “Controlling Shareholders”). The Controlling Shareholders, directly or through their associates, either acquired existing companies or established new companies, at varying dates from 1995 through March 19, 2003, which were contributed to Mechel after its formation. The formation of Mechel and contribution of the subsidiaries’ shares into Mechel’s capital represents a reorganization of entities under common control, and accordingly, has been accounted for in a manner similar to a pooling for the periods presented. During 2006, one of the Controlling Shareholders sold all his Mechel’s stock to the other Controlling Shareholder, Igor Zyuzin, the ultimate controlling party. In accordance with the changes in the Civil Code of the Russian Federation Mechel has 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, 2016
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	January 1999	96.6%
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	97.6%
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 (Note 6, 10.4).

(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, and (10) 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, 2016, 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, 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the 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. 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 associate and its carrying value, and then recognises the loss as 'Share of profit of an associate' 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 financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

(e) Revenue recognition

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

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

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

Sales of goods

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

Principal vs agent arrangements

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

Shipping and handling costs

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

Sales of power

In the Power segment (Note 27), 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 the other main international operations of the Group. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

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

(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, 2016**	**December 31, 2015**	**December 31, 2014**	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**
U.S. dollar	60.66	72.88	56.26	67.03	60.96	38.42
Euro................................	63.81	79.70	68.34	74.23	67.78	50.82

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

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

(ii) Group companies

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

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

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

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

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

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

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

Additional disclosures are provided in Note 16. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

(i) Mineral licenses

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

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

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

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

Other property, plant and equipment

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

Property, plant and equipment (apart from railway of the Elga coal deposit) are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the 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 amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years.

(n) Financial instruments − initial recognition and subsequent measurement

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

(i) Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the 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 12).

AFS financial assets

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the 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 10.
- Trade and other receivables − Note 12.

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 10).

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 interest, 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.

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, 2016, 2015 and 2014, the Group did not have any derivatives designated as hedging instruments.

(p) Inventories

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

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

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

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

(q) Impairment of non-current assets

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

- Intangible assets − Note 19.
- 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, 2016, the Group performed the impairment testing for the following number of CGUs by segments: Steel – 8, 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 Groups engineers.

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the 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 statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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

(s) Provisions

General

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

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

Rehabilitation provision

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

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

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

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

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

State pension fund

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

(u) Significant accounting judgments, estimates and assumptions

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

Judgments

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

Abandoned activity

As of January 1, 2014, Southern Urals Nickel Plant ("SUNP") was recognised as abandoned activity according to a decision to close SUNP without sale. In July 2013, the Group received an approval from the governmental authorities to abandon the industrial complex. The closure of SUNP is aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses. During 2014-2015, the works related to closure of the plant were ongoing. Starting the fourth quarter of 2016, the Group stopped liquidation activities (Note 16); therefore the Group presents the results of SUNP as discontinued operations in the consolidated statement of profit (loss) and other comprehensive income (loss) for the nine months ended September 30, 2016 and prior periods and as continued operations – from the fourth quarter of 2016.

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

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

Railway depreciation method

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

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 year ended December 31, 2016.

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, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognised in the consolidated statement of profit (loss) and other comprehensive income (loss).

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

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

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (Note 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 statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 9).

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 22).

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 23.

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 17).

Impairment of financial assets

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

Determining net realizable value of inventories

The Group makes write-downs for obsolete and slow-moving raw materials and spare parts. In addition, finished goods of the Group are carried at net realizable value (Note 14). Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

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

- Mineral licenses (Note 3(i));
- Property, plant and equipment (Note 3(j));
- Recovery of deferred tax assets (Note 3(f));
- Non-current assets held for sale and discontinued operations (Note 3(h));
- Inventories (Note 3(p));
- Impairment of non-current assets (Note 3(q));
- Pensions and other post-employment benefits (Note 3(t));
- Provisions (Note 3(s));
- Fair value measurement (Note 3(d)).

(v) 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, 2016. 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 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify existing IAS 1 requirements:

- The materiality requirements in IAS 1;
- The requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI;
- That specific line items in the statements of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exemption

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are applied retrospectively. The adoption of the amendments do not have significant impact on the Group as the Group does not apply the consolidation exception.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

Annual improvements to IFRSs 2010-2012 cycle

The amendments relate to IFRS 2 *Share-based Payment,* IFRS 3 *Business Combinations,* IFRS 8 *Operating Segments,* IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets,* IAS 24 *Related Party Disclosures*.

Annual improvements to IFRSs 2012-2014 cycle

The amendments relate to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits*, IAS 34 *Interim Financial Reporting*.

The amendments and improvements described above had no significant impact on the 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, if applicable, when they become effective.

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

This annual improvements package amended three 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.

IFRS 12 Disclosure of Interests in Other Entities. The amendment clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests in a subsidiary, a joint venture or an associate that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

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

- Amendments to IAS 7 *Disclosure Initiative* – effective for annual periods beginning on or after January 1, 2017;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* – January 1, 2017;
- Amendments to IAS 40 *Transfers of Investment Property* – January 1, 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* – January 1, 2018;
- Amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* – January 1, 2018;
- Annual improvements to IFRSs 2014-2016 cycle – January 1, 2018;
- IFRS 9 *Financial Instruments* – January 1, 2018;
- IFRS 15 *Revenue from Contracts with Customers* – January 1, 2018;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* – January 1, 2018;
- IFRS 16 *Leases* – January 1, 2019.

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. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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 replaces the previous leases standard, IAS 17 *Leases*, and the related interpretations.

The Group plans to apply IFRS 16 and IFRS 9 starting from the respective effective dates. The Group is currently assessing the impact of the standards on the consolidated financial statements.

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 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 retrospectively. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to a change arising from a more detailed ongoing analysis. In 2017, further review of contracts will be undertaken at all businesses. Furthermore, the Group is considering the clarification issued by the IASB in an exposure draft in April 2016 and will monitor any further developments.

4. Going concern

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

As of December 31, 2016, the Group's total liabilities exceeded total assets by RUB 252,588 million.

In 2016, the Group was in the process of debt restructuring, while as of December 31, 2016, this process was not finalized with respect to the Group's credit facilities with the foreign banks and lenders other than Gazprombank, Sberbank, VTB, Gazprombank Leasing, Sberbank Leasing, VTB Leasing, Moscow Commercial Bank 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 427,350 million. As of December 31, 2016, the Group's short-term debt was RUB 434,165 million, including RUB 260,653 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 21,678 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, during 2016 and through the date of approval of the consolidated statements, the restructuring agreements have been signed with the major creditors of the Group, including Gazprombank, Sberbank, VTB, Gazprombank Leasing, Sberbank Leasing, VTB Leasing, Moscow Commercial Bank and other banks (see Note 29). The Group successfully restructured the ruble-denominated bonds in 2016. It will pursue to reach the restructuring agreements with other lenders, including pre-export facility creditors, ECA-covered loans creditors and Vnesheconombank (VEB).

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 increase in profitability. The Group's detailed monthly operational plans include further optimization of the costs structure and on-going control over the production costs and commercial expenses.

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

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 few years, the Group has become more focused on managing its debt, which has been the major source for expansion and growth.

Metals and mining industry is known for its capital intensive investment cycle requiring secure long-term financing. In 2012-2015, high price volatility on the coal seaborne market and metal market resulted in the decrease in the Group's operating profit, 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 107,499 million at exchange rate as of December 31, 2016) at the end of 2016, which is a result of partial repayment of U.S. dollar-denominated debt, conversion of U.S. dollar-denominated debt into RUB-denominated loans during the restructuring process.

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

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 sustain 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 are 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, 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

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

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

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 amortization and decrease in interest payments by partial capitalization.

Cost of debt is also important in the Group's capital management. Throughout the restructuring process, the Group changed the floating interest rates dependent on the Russian money market (Mosprime rate) by the key rate of the Central Bank of Russia, which is less volatile and better represents the cost of funds by the local banks from the Central Bank of Russia in the Russian economy. The management believes that it will allow the Group to avoid sudden splashes in the cost of debt due to temporary demand/supply fluctuations. 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.

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 amortization, 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 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, 2016 and 2015 are not changed.

[1] Detailed information in respect of restrictive covenant calculations is presented in Note 10.1.

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

6. Business combinations and changes in non-controlling interests

There were no new business combinations in the years ended December 31, 2014, 2015 and 2016.

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 reclassifications of prior periods' amounts have been made to conform to the current year presentation.

The following table summarizes changes in non-controlling interests for the years ended December 31, 2016, 2015 and 2014:

Balance at January 1, 2014	**9,500**
Effect from disposal of subsidiaries	4
Dividends declared to non-controlling interest	(2)
Loss for the period	(1,263)
Other comprehensive income/(loss)	14
Balance at December 31, 2014	**8,253**
Change of non-controlling interest in existing subsidiaries by the Group (Note 25)	(2,842)
Profit for the period	535
Other comprehensive income/(loss)	2
Balance at December 31, 2015	**5,948**
Acquisition of non-controlling interest in existing subsidiaries by the Group	(4)
Reversal of unclaimed declared dividends to non-controlling interest upon expiration of limitation period	35
Dividends declared to non-controlling interest	(3)
Profit for the period	1,706
Other comprehensive income/(loss)	4
Balance at December 31, 2016	**7,686**

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 + 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 Mechel-Trans OOO (sellers of the stakes in target companies) and are guaranteed by Mechel Mining AO 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 of this financial liability see Note 10.4.

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

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, 2016	At December 31, 2015
SKCC and subsidiaries*	3.4%	3.4%
Kuzbass Power Sales Company (KPSC)	27.9%	27.9%
Chelyabinsk Metallurgical Plant (CMP)	5.9%	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 of 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 (Note 16) for the nine months of 2016, and years ended December 31, 2015 and 2014. Therefore, SUNP's results for the nine months period ended September 30, 2016, and for the years ended December 31, 2015 and 2014 are not disclosed in summarised statements of profit and loss 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, RUB 80 million and RUB 301 million for the years ended December 31, 2016, 2015 and 2014, respectively. The SUNP's non-controlling interest is disclosed in statements of financial position as of December 31, 2016 and 2015 (see below).

Summarised statements of profit and other comprehensive income 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 goods sold	(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	–	–	–	–	–	–	–	–

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

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

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue	31,169	20,723	96,126	23,605	7,784	12,591	9,902
Cost of goods sold	(19,842)	(11,268)	(78,995)	(21,518)	(6,400)	(9,663)	(8,589)
Total selling, distribution and operating expenses, net	(6,281)	(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 profit (loss) and other comprehensive income (loss) for 2014:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue	26,584	19,037	87,866	22,253	9,688	12,792	9,131
Cost of sales	(18,835)	(9,737)	(72,198)	(20,094)	(6,301)	(9,997)	(8,964)
Total selling, distribution and operating expenses, net	(7,614)	(8,920)	(6,553)	(2,007)	(3,256)	(1,373)	(7,460)
Total other income and (expense), net	(37,837)	150	(10,236)	1,111	2,562	1,096	(1,745)
(Loss) profit before tax	**(37,702)**	**530**	**(1,121)**	**1,263**	**2,693**	**2,518**	**(9,038)**
Income tax (expense) benefit	2,921	(114)	(1,213)	50	(58)	64	819
(Loss) profit for the year from continuing operations	**(34,781)**	**416**	**(2,334)**	**1,313**	**2,635**	**2,582**	**(8,219)**
Total comprehensive (loss) income	**(34,781)**	**416**	**(2,334)**	**1,313**	**2,635**	**2,582**	**(8,219)**
Attributable to non-controlling interests	(1,263)	116	(137)	112	262	161	(822)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–

Summarised statements of financial position as of December 31, 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

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

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

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

Summarised 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**

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

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	12,980	(497)	15,544	2,163	6,351	1,569	(12)
Investing	(12,038)	(375)	(17,492)	(1,581)	(6,347)	(1,981)	(49)
Financing	(3,901)	401	2,370	(668)	(8)	750	29
Increase (decrease) in cash and cash equivalents, net	**(2,959)**	**(471)**	**422**	**(86)**	**(4)**	**338**	**(32)**

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

8. Investments in associates

Investments in associates are comprised of:

	Percent of shares held at		Investment carrying value at	
Investee	**December 31, 2016**	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Mechel Somani Carbon (Mining segment)	51.0%	51.0%	–	45
TPTU (Mining segment)	40.0%	40.0%	175	157
TRMZ (Mining segment)	25.0%	25.0%	90	82
Total investments in associates			**265**	**284**

Mechel Somani Carbon Private Limited shares are owned by Mechel Carbon AG. The core business is distribution of metallurgical coals on the Indian market. Despite the ownership of 51% of Mechel Somani Carbon shares the Group cannot exercise control over the company. As of December 31, 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)**	**BWS Bewehrungsstahl GmbH (Austria) (Steel segment)**	**Total**
January 1, 2014	**17**	**148**	**79**	**7**	**251**
Share of profit (loss)	6	7	1	(7)	**7**
Disposal of investments	–	–	–	(1)	**(1)**
Exchange differences	16	–	–	1	**17**
December 31, 2014	**39**	**155**	**80**	**–**	**274**
Share of (loss) profit	(5)	2	3	–	**–**
Exchange differences	10	–	–	–	**10**
December 31, 2015	**44**	**157**	**83**	**–**	**284**
Share of (loss) profit	–	18	7	–	**25**
Provision for impairment of investments	(42)	–	–	–	**(42)**
Exchange differences	(2)	–	–	–	**(2)**
December 31, 2016	**–**	**175**	**90**	**–**	**265**

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

9. 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, 2016		December 31, 2015	
	Level	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities					
Interest-bearing loans and borrowings:					
- Floating rate loans	3	407,015	357,782	255,931	220,225
- Bonds	1	14,717	12,740	16,684	13,398
- Fixed rate loans	3	24,077	23,105	223,367	190,108
Other non-current financial liabilities (Note 10.4)	3	36,198	25,772	–	–
Total		**482,007**	**419,399**	**495,982**	**423,731**

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

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

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

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

Derivatives: the fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Option-based derivatives are valued using Black-Scholes models and Monte-Carlo simulations. The derivative financial instruments are recorded at their fair value at each reporting date. There are no such financial instruments as of December 31, 2016.

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

	Contingent consideration Drilling Program Level 3	**Swap transactions Level 2**	**Option Level 2**
January 1, 2014	**907**	**408**	**415**
Remeasurement recognised in OCI	689	–	–
Loss on contingent consideration remeasurement	85	–	–
Disposal/termination	–	(408)	(415)
December 31, 2014	**1,681**	–	–
Disposal/termination	(1,681)	–	–
December 31, 2015	–	–	–
Initial recognition	–	–	–
Remeasurement gain/loss	–	–	–
December 31, 2016	–	–	–

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

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

10. Financial assets and financial liabilities

10.1 Financial liabilities: interest-bearing loans and borrowings

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

Short-term borrowings and current portion of long-term debt	December 31, 2016 Interest rate	December 31, 2016 Amount of outstanding debt	December 31, 2015 Interest rate	December 31, 2015 Amount of outstanding debt
In Russian rubles				
Banks and financial institutions	9.8-14.5	3,458	9.4-16.0	8,239
Corporate lenders	6.7	64	6.7	65
Weighted average interest rate for the period	–	13.9%	–	12.9%
In U.S. dollars				
Banks and financial institutions	8.0	154	8.0	310
Weighted average interest rate for the period	–	8.0%	–	8.0%
In euro				
Banks and financial institutions	2.8	114	8.3	3,591
Corporate lenders	–	–	2.8	182
Weighted average interest rate for the period	–	2.8%	–	8.3%
Current portion of long-term debt	–	391,781	–	431,812
Interest payable	–	16,916	–	27,269
Fines and penalties on overdue amounts	–	21,678	–	20,206
Total short-term borrowings and current portion of long-term debt		**434,165**		**491,674**

Long-term debt	December 31, 2016 Interest rate	December 31, 2016 Amount of outstanding debt	December 31, 2015 Interest rate	December 31, 2015 Amount of outstanding debt
In Russian rubles				
Banks and financial institutions	5.0-15.0	258,855	10.1-17.0	134,786
Bonds issue	8.0-15.0	14,365	2.0-15.0	16,551
Corporate lenders	6.7	5	6.7	5
Weighted average interest rate for the period	–	12.5%	–	12.9%
In U.S. dollars				
Banks and financial institutions	2.2-8.2	107,346	1.8-8.0	260,212
Weighted average interest rate for the period	–	8.2%	–	8.0%
In euro				
Banks and financial institutions	0.8-7.3	22,854	0.8-5.7	24,566
Weighted average interest rate for the period	–	4.5%	–	4.5%
Current part of long-term loans and borrowings		(391,781)		(431,812)
Total long-term debt		**11,644**		**4,308**

Aggregate scheduled maturities of the debt outstanding as of December 31, 2016, were as follows:

Payable by	
On demand (current portion)	427,400
2017 (current portion)	6,764
2018	3,161
2019	3,572
2020	2,921
2021	1,991
Thereafter	–
Total	**445,809**

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

The unused portion under all credit facilities as of December 31, 2016 and 2015 was RUB 373 million and RUB 409 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, 2016 and 2015 were as follows:

Short-term and long-term debt	December 31, 2016	December 31, 2015
Russian ruble-denominated		
Gazprombank	153,614	33,639
VTB	71,711	70,415
Sberbank	31,106	32,141
Bonds	14,365	16,551
Uralsib	3,116	3,331
Eurasian Development Bank	1,227	1,767
Raiffeisen Bank	490	897
Other	1,119	905
Total	**276,748**	**159,646**
U.S. dollar-denominated		
Pre-export facility	60,898	72,881
Sberbank	21,811	56,609
VEB	10,147	12,192
BNP	9,251	10,955
MCB	5,041	6,311
Gazprombank	–	101,156
Other	351	418
Total	**107,499**	**260,522**
Euro-denominated		
BNP	9,460	11,505
VTB	3,214	4,098
BNL	2,736	3,364
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	2,723	3,345
ING Bank	1,997	2,461
Raiffeisen Bank	381	475
Other	2,457	3,091
Total	**22,968**	**28,339**
Total short-term and long-term debt	**407,215**	**448,507**

(a) Pre-export facility agreement

As of December 31, 2016, pre-export facility agreement (represented by the syndicate of banks – CJSC UniCredit Bank, Caterpillar Financial, ING Bank N.V. 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, 2016 and 2015 were RUB 60,898 million ($1,003,964 thousand at exchange rate as of December 31, 2016) and RUB 72,881 million ($999,970 thousand at exchange rate as of December 31, 2015), respectively.

As of December 31, 2016, the Group's overdue principal amount and overdue interest on pre-export facility agreement amounted to RUB 60,897 million and RUB 7,123 million, respectively, as of December 31, 2015 – RUB 38,049 million and RUB 3,857 million, respectively.

As of December 31, 2016, the Group was in the process of negotiation with the syndicate of banks 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.

The fines and penalties on overdue amounts of RUB 20 million and RUB 28 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2016 and 2015, respectively. The amount of RUB 427 million and RUB 165 million was recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2016 and 2015, respectively.

(b) VTB facilities

In December 2016, the Group signed amendments to the restructuring agreements providing with an extension of the repayment grace period until April 2020 and 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 extension of the grace period was subject to certain conditions such as guarantees on a full amount from Mechel PAO and CMP which shall be provided till March 31, 2017 and compliance with covenants set by the agreements (in case of breach of covenants the grace period is moved to April 2017 and the final maturity – to April 2020). 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 from 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, the conditions were met resulting in the extended repayment grace period until 2020 and the final maturity until 2022 (see Note 29). 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).

The outstanding balances of the ruble-denominated facilities as of December 31, 2016 and 2015 were RUB 71,711 million and RUB 70,415 million, respectively, bearing interest at 11.5% p.a.

During 2010-2015, VTB provided euro-denominated loans to the Group, bearing interest at 5.3%-7.3% p.a. 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. The outstanding balances as of December 31, 2016 and 2015 were RUB 3,214 million and RUB 4,098 million, respectively.

As of December 31, 2016, there was no overdue principal amount and overdue interest on VTB credit facilities, as of December 31, 2015, the Group's overdue principal amount was RUB 45 million. The fines and penalties on overdue amounts of RUB 10,597[2] million and RUB 10,689 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2016 and 2015, respectively. The amount of RUB 184 million and RUB 9,704 million was recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2016 and 2015, respectively.

(c) Gazprombank facilities

In 2015, the Group signed restructuring agreements (became effective in 2016) providing with an extension of the repayment grace period until April 2017 and 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. The repayment grace period and final maturity may be extended until April 2020 and April 2022, respectively, if certain conditions are met. In April 2017, the conditions were met resulting in the extended repayment grace period until 2020 and the final maturity until 2022 (see Note 29). Interest rate under the restructured agreements is set at the level of the Central Bank of Russia rate plus 1.5% since the effective date of the restructuring (subject to increase to 3.5% if certain conditions are not met). The extended grace period, final maturity and interest rate set in April 2017 were subject to similar terms with Sberbank and VTB. The restructuring under SKCC and Yakutugol U.S. dollar-denominated credit facilities became effective in January-March 2016. The restructuring under CMP, Mechel Service, Mechel-Energo, BMP, Port Posiet, Mechel Coke, SKCC and USP ruble-denominated credit facilities became effective in June 2016.

During 2011-2015, Gazprombank provided ruble-denominated long-term and short-term loans to the Group bearing interest at 9.8%-11.5% p.a. with the outstanding balance of RUB 33,639 million as of December 31, 2015. During 2009-2013, Gazprombank provided dollar-denominated long-term loans to the Group bearing interest at 5.9%-7.5% p.a. The outstanding balance of U.S. dollar-denominated debt as of December 31, 2015 was RUB 101,156 million ($1,387,930 thousand at exchange rate as of December 31, 2015) and it was converted from U.S. dollar into Russian ruble based on market exchange rate at the date of the conversion during the restructuring in 2016. Upon the conversion, the outstanding loan balance as of December 31, 2016 was RUB 153,614 million.

[2] 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.

As of December 31, 2016, there was no overdue principal amount and overdue interest on Gazprombank credit facilities. As of December 31, 2015, the Group's overdue principal amount and overdue interest amounted to RUB 36,308 million and RUB 11,362 million, respectively. The fines and penalties on overdue amounts of RUB 7,450 million and RUB 6,026 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2016 and 2015, respectively. The amount of RUB 2,031 million and RUB 5,179 million was recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2016 and 2015, respectively.

(d) Sberbank facilities

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 for credit facilities in the amount of RUB 51,103 million of CMP, SKCC and MTAG. The repayment grace period and final maturity may be extended until January 2020 and April 2022, respectively, if certain conditions such as cross pledges between facilities and cross guarantees are met. In April 2017, the conditions were met resulting in the extended repayment grace period until 2020 and the final maturity until 2022 (see Note 29). For the credit facilities of CMP, Izhstal, BFP, KMP, Yakutugol and SKCC in the amount of RUB 1,814 million the final maturity was determined to be October 2017. Interest rate under the restructured agreements is set at the level of the Central Bank of Russia rate plus 1.5% (subject to increase to 3.5% if certain conditions are not met) and in U.S. dollars at a rate 3M LIBOR + 7% starting from April 2016. According to the restructuring agreements, fines and penalties were fixed at RUB 1.7 billion (at exchange rate as of December 31, 2015).

The outstanding balances of the ruble-denominated facilities as of December 31, 2016 and 2015 were RUB 31,106 million and RUB 32,141 million, respectively, bearing interest at 11.5% p.a. The outstanding balances of the dollar-denominated facilities as of December 31, 2016 and 2015 were RUB 21,811 million ($359,587 thousand at exchange rate as of December 31, 2016) and RUB 56,609 million ($776,715 thousand at exchange rate as of December 31, 2015), respectively, bearing interest at 7.9% p.a. The outstanding balances decreased due to repayment of credit facilities from cash received from the sale of a 49% stake in the Elga coal complex to Gazprombank and entering into a put option agreement (see Note 6).

As of December 31, 2016, there were no overdue principal amount and overdue interest on Sberbank credit facilities. As of December 31, 2015, the Group's overdue principal amount and overdue interest amounted to RUB 65,778 million and RUB 5,770 million, respectively.

The fines and penalties on overdue amounts of RUB 2,311 million and RUB 2,681 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2016 and 2015, respectively. The amount of RUB 2,244 million and RUB 2,699 million was recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income (loss) for the year ended December 31, 2016 and 2015, respectively.

(e) VEB facility

The Elgaugol's outstanding balances under VEB credit facility as of December 31, 2016 and 2015 were RUB 10,147 million ($167,288 thousand at exchange rate as of December 31, 2016) and RUB 12,192 million ($167,288 thousand at exchange rate as of December 31, 2015), respectively, bearing interest at 8.0% p.a. 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, as of December 31, 2015 – RUB 10,673 million ($146,438 thousand at exchange rate as of December 31, 2015) and RUB 246 million ($3,369 thousand at exchange rate as of December 31, 2015). The use of proceeds under the facility is limited to the development of the Elga coal project.

As of December 31, 2016, the Group was in process of negotiation with VEB in order to reach restructuring agreements for the VEB facility.

The fines and penalties on overdue amounts of RUB 24 million and RUB 18 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2016 and 2015, respectively. The amount of 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 year ended December 31, 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 interest rate for the current coupon period amounted to 13.0% p.a. The maturity date is July 15, 2021. The balance outstanding as of December 31, 2016 was RUB 1,638 million. In July 2016, bonds were restructured and according to the restructuring terms RUB 317 million were classified as current debt and RUB 1,321 million were classified as long-term debt as of December 31, 2016. According to the new payment schedule, the amount of RUB 317 million should be paid in 2017, RUB 352 million – in 2018-2020 and RUB 265 million – in 2021.

On September 7, 2010, Mechel PAO issued two 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 15.0% p.a. The maturity date is February 25, 2020. The balance outstanding as of December 31, 2016 was RUB 3,914 million, including RUB 764 million classified as short-term debt and RUB 3,150 million classified as long-term debt. According to the new payment schedule, the amount of RUB 764 million should be paid in 2017, RUB 1,005 million – in 2018, RUB 1,406 million – in 2019, and the final payment in the amount of RUB 739 million should be made in 2020.

On February 22, 2011, Mechel PAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 8.0% p.a. The maturity date is February 9, 2021. The option to demand early redemption of the bonds was replaced with the novation agreement approved at the general meeting of bondholders on August 4, 2016. The balance outstanding as of December 31, 2016 was RUB 820 million and is classified as long-term debt that should be paid in 2021.

On June 9, 2011, Mechel PAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 10,000 million. The interest rate for the current coupon period amounted to 13.5% p.a. The maturity date is May 27, 2021. The balance outstanding as of December 31, 2016 was RUB 5,110 million. In June 2016, bonds were restructured and according to the restructuring terms, RUB 1,066 million were classified as current debt and RUB 4,044 million were classified as long-term debt as of December 31, 2016. According to the new payment schedule, the amount of RUB 1,066 million should be paid in 2017, RUB 1,138 million – in 2018, RUB 1,152 million in 2019, RUB 1,168 million – in 2020 and RUB 586 million – in 2021.

On June 14, 2011, Mechel PAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of RUB 5,000 million. The interest rate for the current coupon period amounted to 13.5% p.a. The maturity date is June 1, 2021. The balance outstanding as of December 31, 2016 was RUB 2,883 million. In July 2016, bonds were restructured and according to the restructuring terms, RUB 616 million were classified as current debt and RUB 2,267 million were classified as long-term debt as of December 31, 2016. According to the new payment schedule, the amount of RUB 616 million should be paid in 2017, RUB 648 million – in 2018-2020 and RUB 323 million – in 2021.

(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 40,350 million and RUB 48,825 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Group was in process of negotiation with other banks (such as BNP, BNL, ING, Raiffeisen Bank and other international banks) in order to reach restructuring agreements for the related credit facilities.

As of December 31, 2016, the Group's overdue principal amount and overdue interest on other loans amounted to RUB 11,447 million and RUB 1,120 million, respectively, as of December 31, 2015 – RUB 10,436 million and RUB 735 million, respectively. The fines and penalties on overdue amounts of RUB 1,276 million and RUB 764 million were recorded in interest-bearing loans and borrowings in the consolidated statement of financial position as of December 31, 2016 and 2015, respectively. The amount of 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, 2016 and 2015, respectively. The amount of RUB 36 million of waived fines and penalties (due to the restructuring of MCB 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, 2016.

In 2010-2016, the Group signed revolving credit agreements for working capital financing up to RUB 3,914 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 5.3-14.5% p.a.

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

(h) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 100% − 1 share of Yakutugol, 75% + 4 shares of SKCC, 91.66% of CMP, 50% + 2 shares of common shares of BMP, 80% + 3 shares of KMP, 62.5% of Mechel Mining, 80% − 5 shares of USP, 33.33% + 1 share of common shares of Izhstal, 25% + 1 share of Port Posiet, 50.99% of Elgaugol, 25% of registered capital of Mecheltrans, 100% of registered capital of Fincom-invest OOO, 25% of BFP, 25% of Mechel Temryuk, 1.99% of Mecheltrans Vostok OOO, 1.99% of Elga-road as of December 31, 2016.

As of December 31, 2016 and 2015, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 117,047 million and RUB 33,510 million, respectively (Note 18). Carrying value of inventories pledged under the loan agreements amounted to RUB 3,668 million and RUB 4,037 million as of December 31, 2016 and 2015, respectively. Accounts receivable pledged as of December 31, 2016 and 2015 amounted to RUB 238 million and RUB 273 million, respectively. Additionally, CMP pledged its rights to receive future payments (revenue) related to the contract with OJSC Russian Railways in the amount of RUB 6,066 million ($100 million).[3]

(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, 2016[4]:

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

As of December 31, 2016, the Group was in compliance with major 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 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 81,226 million and RUB 8,617 million, respectively, which is represented primarily by the default of the pre-export facility agreement (Note 10.1(a)) and ECA-covered loans (represented by the credit facilities of BNP, BNL, ING, Raiffeisen Bank and other international banks − Note 10.1(g)). As a result, the long-term debt of RUB 260,653 million was reclassified to short-term liabilities as of December 31, 2016.

[3] CMP's accounts receivable from OJSC Russian Railways as of December 31, 2016 amounted to RUB 1,166 million.

[4] 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 financial liability balances; Net Debt is equal to Total Debt less cash and cash equivalents, and excludes Net Debt of Elgaugol (set by the VEB credit facility).

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

10.2 Financial instruments risk management objectives and policies

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

Liquidity risk

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

As of December 31, 2016, the Group was in breach of a number of financial covenants contained in the Group's loan agreements, which led to cross-defaults under other loan and finance lease agreements, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans.

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

	Maturity						
	On demand	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 3 years**	**More than 3 years but less than 4 years**	**More than 4 years**	**Total**
At December 31, 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 non-current financial liabilities	–	–	–	–	–	60,475	**60,475**

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

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

Credit risk

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

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

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

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

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

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

	December 31, 2016	December 31, 2015
Restricted cash (excluding cash on hand)	24	62
Trade and other receivables	19,121	16,033
Other financial assets	415	303
- Promissory notes	*208*	*218*
- Loans issued	*61*	*72*
- Bonds	*13*	*13*
- Deposits	*133*	*–*
Total	**19,560**	**16,398**

Foreign currency risk

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

The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. Approximately 21% of the Group's sales are denominated in U.S. dollars and 12% of the Group's sales are denominated in euro, 27% 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 33% of total sales of the Group are denominated in U.S. dollars and euro that reduces negative impact of changes in exchange rates for the Group's borrowings and purchases denominated in foreign currencies, mostly in U.S. dollars. The Group does not currently use derivative instruments to manage exchange rate exposures.

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

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

Assets and liabilities denominated in U.S. dollars	**December 31, 2016**	**December 31, 2015**
Current assets	**225**	**2,549**
Receivables	156	1,399
Cash and cash equivalents	69	1,150
Current liabilities	**(124,281)**	**(301,442)**
Short-term loans and borrowings	(113,327)	(279,905)
Short-term payables	(9,433)	(19,405)
Short-term finance lease liability	(1,521)	(2,132)

Assets and liabilities denominated in euro	**December 31, 2016**	**December 31, 2015**
Current assets	**534**	**3,096**
Receivables	353	1,939
Cash and cash equivalents	181	1,157
Non-current liabilities	**(38)**	**(97)**
Long-term loans and borrowings	(38)	(64)
Long-term finance lease liability	–	(33)
Current liabilities	**(23,766)**	**(30,705)**
Short-term loans and borrowings	(22,817)	(28,544)
Short-term payables	(838)	(1,936)
Short-term finance lease liability	(111)	(225)

Currency exchange rates	**December 31, 2016**	**December 31, 2015**
U.S. dollar	60.6569	72.8827
Euro	63.8111	79.6972

Sensitivity analysis

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

	Change in U.S. dollar to Russian ruble exchange rate	**Effect on profit before tax**	**Change in Euro to Russian ruble exchange rate**	**Effect on profit before tax**
2014				
	+30%	68,671	+30%	7,070
	-30%	(68,671)	-30%	(7,070)
2015				
	+40%	119,557	+40%	11,082
	-15%	(44,834)	-15%	(4,156)
2016				
	+20%	24,811	+20%	4,654
	-20%	(24,811)	-20%	(4,654)

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

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. As of December 31, 2016 and 2015, the shares of the borrowings with floating rates in the total amount of the borrowings were 91% (incl. Mosprime – 0.1%, key rate of the Central Bank of Russia – 62%, LIBOR, EURIBOR and others – 29%) and 53% (incl. Mosprime – 0.2%, key rate of the Central Bank of Russia – 14%, LIBOR, EURIBOR and others – 39%), respectively.

The table below demonstrates the Group's sensitivity to 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/decre ase in EURIBOR (%)	Effect on profit before tax
2014						
	+9.32%	4,395	+0.02%	12	+0.07%	13
	-9.32%	(4,395)	-0.02%	(12)	-0.07%	(13)
2015						
	+6%	3,312	+0.5%	662	+0.25%	62
	-5%	(2,760)	-0.12%	(159)	-0.25%	(62)
2016						
	+2%	4,943	+0.6%	736	+0.12%	28
	-4%	(9,887)	-0.08%	(98)	-0.08%	(19)

10.3 Other current financial assets

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

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

The Group evaluates the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2016, 2015 and 2014, was RUB nil. This resulted in a $830,288 thousand (RUB 50,320 million at exchange rate as of December 31, 2016), $830,421 thousand (RUB 60,620 million at exchange rate as of December 31, 2015) and $832,013 thousand (RUB 46,742 million at exchange rate as of December 31, 2014) provision for doubtful accounts under this loan as of December 31, 2016, 2015 and 2014, respectively. 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.

10.4 Other non-current financial liabilities

As of December 31, 2016, the Group recognized other non-current financial liabilities under the put option of Gazprombank (see Note 6) in the amount of RUB 36,198 million (estimated at present value of the consideration to be transferred upon the exercise of the put option discounted at an interest rate of 12%). The respective finance cost was recognized in the consolidated statement of profit (loss) and other comprehensive income (loss) (Note 26.5).

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

11. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash and cash equivalents from continuing operations:		
Cash on hand	8	8
Cash at banks, including		
- in Russian rubles	*683*	*628*
- in U.S. dollars	*482*	*1,150*
- in euro	*404*	*1,157*
- in other currencies	*109*	*135*
Other cash and cash equivalents	3	1
Total cash and cash equivalents	**1,689**	**3,079**

For the purpose of the statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 236 million and RUB 2,188 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Group did not have any short-term deposits with original maturities of less than 90 days.

As of December 31, 2016 and 2015, the amount of RUB 24 million and RUB 62 million, respectively, was restricted for use by regulatory requirements.

As of December 31, 2016 and 2015, the Group had available RUB 373 million and RUB 409 million, respectively, of undrawn committed borrowing facilities.

12. Trade and other receivables

	December 31, 2016	December 31, 2015
Trade receivables, including	24,325	26,895
- domestic customers	20,436	22,342
- foreign customers	3,889	4,553
Other receivables*	28,670	29,336
Total trade and other receivables	**52,995**	**56,231**
Less allowance for doubtful accounts*	(33,941)	(40,218)
Total accounts receivable, net	**19,054**	**16,013**

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

As of December 31, 2016 and 2015, the ageing analysis of trade receivables were as follows:

	December 31, 2016	December 31, 2015
Total receivables	**52,995**	**56,231**
Past due but not impaired		
<30 days	2,739	2,338
30-60 days	528	661
61-90 days	201	241
91-180 days	476	248
181-365 days	362	327
>1 year	183	615
Total past due, but not impaired	**4,489**	**4,430**

Receivables that were past due but not impaired amounted to RUB 4,489 million and RUB 4,430 million as of December 31, 2016 and 2015, 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 January 1, 2014	**(27,362)**
Charge for the year	(3,203)
Utilised/unused amounts reversed	–
Disposal of subsidiaries	153
Reclassified in assets of disposal group held for sale	9
Exchange rate difference	(8,479)
At December 31, 2014	**(38,882)**
Charge for the year	(1,152)
Utilised/unused amounts reversed	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/unused amounts reversed	6,637
Reclassified in assets of disposal group held for sale	11
Exchange rate difference	242
At December 31, 2016	**(33,941)**

As of December 31, 2016, 2015 and 2014, receivables from related parties in the amount of RUB 24,539 million, RUB 24,035 million and RUB 24,254 million, respectively, are included into Other receivables. The amounts are fully covered by the allowance (Note 13(b)).

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

13. 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 2016, 2015 and 2014.

	2016			2015			2014		
	Purchases	**Sales**	**Other loss (income)**	**Purchases**	**Sales**	**Other loss (income)**	**Purchases**	**Sales**	**Other loss (income)**
Associates	200	117	(11)	199	80	28	284	91	(2)
Controlling shareholders and entities under control of the Group's Controlling shareholders	278	45	41	261	37	(23)	94	25	133
Total	**478**	**162**	**30**	**460**	**117**	**5**	**378**	**116**	**131**

As of December 31, 2016 and 2015, the Group had the following balances in settlement with related parties:

	December 31, 2016			December 31, 2015		
	Receivables from	**Payables to**	**Total outstanding, net**	**Receivables from**	**Payables to**	**Total outstanding, net**
Associates	33	(55)	(22)	8	(50)	**(42)**
Controlling shareholders and entities under control of the Group's Controlling shareholders	70	(37)	33	88	(28)	**60**
Total	**103**	**(92)**	**11**	**96**	**(78)**	**18**

(a) Transactions with the associates

The Group's associates provide to the Group's subsidiaries transportation and auto repair services. During the years ended December 31, 2016, 2015 and 2014, the Group purchased from its associates transportation services in the amount of RUB 114 million, RUB 105 million and RUB 166 million, respectively, and repair services in the amount of RUB 86 million, RUB 94 million and RUB 86 million, respectively.

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

As of December 31, 2016 and 2015, the amounts of accounts receivable fully covered by the allowance included amounts receivable of RUB 24,539 million and RUB 24,035 million, respectively, described below. In December 2013, the Group, related party (an entity wholly owned by the Controlling Shareholder) and the former Estar metallurgical plants signed an assignment agreement. Under that agreement, the Group assigned to its related party the right to collect amounts due from the former Estar metallurgical plants, and the related party is to repay this amount to the Group through November 2017.

The outstanding cash balance in Coalmetbank was RUB 200 million and RUB 1,580 million as of December 31, 2016 and December 31, 2015, 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 543 million, RUB 481 million and RUB 291 in the years ended December 31, 2016, 2015 and 2014, respectively. There are no share-based payments to key management personnel. The Group's directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

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

14. Inventories

	December 31, 2016	December 31, 2015
Raw materials	13,666	11,496
Work in progress	5,654	5,769
Finished goods and goods for resale	15,907	17,924
Total inventories at the lower of cost and net realizable value	**35,227**	**35,189**

During 2016, RUB 364 million (2015: RUB 1,003 million, 2014: RUB 1,360 million) was recognised as an expense within cost of goods sold for inventories carried at net realisable value. The amount of inventories recognised as an expense during the period was RUB 95,019 million for 2016 (2015: RUB 100,577 million, 2014: RUB 99,934 million).

15. Other current and non-current assets

	December 31, 2016	December 31, 2015
Other current assets		
Prepayments and advances	3,873	3,545
Input VAT and other taxes recoverable	3,000	2,976
Other current assets	69	1,670
Total prepayments and other current assets	**6,942**	**8,191**

	December 31, 2016	December 31, 2015
Other non-current assets		
Deferred assets from sale and lease back	306	339
Advance payment to non state pension fund	–	462
Other non-current assets	585	442
Total other non-current assets	**891**	**1,243**

The other current assets as of December 31, 2015 reflect the upfront fee in the amount of RUB 1,411 million paid in 2014 to VEB for the opening of the credit line. As of December 31, 2016, the provision for the VEB’s commission was recorded due to uncertainty in further financing.

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

As of December 31, 2015, advance payment to non state pension fund (Mechel Fund) of RUB 462 million was made by Yakutugol based on terms of the agreed pension benefit program. On June 1, 2016, the advance payment in the amount of RUB 408 million was fully provided for due to revocation of the fund’s license by the Central Bank and existing uncertainty of its recoverability (Note 23).

Provision for advances issued of RUB 185 million, RUB 355 million and RUB 595 million was included in Allowance for doubtful accounts in the consolidated statement of profit (loss) and other comprehensive income (loss) for the years ended December 31, 2016, 2015 and 2014.

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

16. Discontinued operations

BCG Companies

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

During 2016, the Group received royalty payments on coal mined and sold in the amount of $1.8 million (RUB 121 million at the year average exchange rate of 67.04 RUB/USD) (Note 26.6).

The contingent consideration arising upon the acquisition of the BCG Companies of $29,936 thousand (RUB 1,681 million at exchange rate as of December 31, 2014 and RUB 1,977 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015), which depends on the results of additional geological researches of reserves ("Drilling Program"), was released on the date of transfer of shares of February 12, 2015. The Group incurred expenses of $3,415 thousand (RUB 226 million at exchange rate of 66.0585 RUB/USD as of February 12, 2015) related to consulting services from third party banks in connection with the sale. The disposal of the BCG Companies is aligned with the revised strategy aimed at restructuring the Group's assets and development of its core businesses.

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

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

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

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

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

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

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

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

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

SUNP

On 25 May 2013, according to the decision on the closure of the plant the Group approved the plan of staff curtailment. The number of SUNP's personnel was reduced to 274 workers as of January 1, 2014. As of December 31, 2014, the number of personnel increased to 315 workers due to cease of third parties security services and redirection of these functions to SUNP's internal employees as part of the Group's efforts to reduce SUNP's costs. The impairment of property, plant and equipment and nickel mineral license of RUB 2,600 million as of January 1, 2014 was recognised to reduce the carrying amount of the assets and liabilities of SUNP to their realizable value. The impairment of goodwill in the amount of RUB 184 million was recognised as of January 1, 2014.

Starting the fourth quarter of 2016, the Group stopped liquidation activities on SUNP and the company was involved into operations other than ferronickel production, its current income and expenses, gains and losses are not significant to the Group. The Group presents the results of SUNP as discontinued operations in the consolidated statement of profit (loss) and other comprehensive income (loss) for the nine months ended September 30, 2016 and as continued operations − starting the fourth quarter of 2016.

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

	December 31, 2016	December 31, 2015	December 31, 2014
Revenue	53	69	66
Cost of goods sold	(49)	(51)	(45)
Gross profit	**4**	**18**	**21**
Selling and distribution expenses	–	–	(1)
Administrative and other operating expenses	(73)	(115)	(133)
Other operating (expenses)/income	(102)	31	296
Finance costs	(15)	(30)	(32)
Other (expenses)/income	(240)	154	1,288
(Loss) profit for the year from discontinued operations, net	**(426)**	**58**	**1,439**

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

17. Property, plant and equipment

	Land	Buildings and constructions	Operating machinery and equipment	Transportation vehicles	Other equipment	Construction-in-progress	Mining plant and equipment	Railway Ulak-Elga	Total
Cost									
At January 1, 2014	**3,210**	**64,226**	**107,481**	**29,810**	**1,331**	**109,730**	**15,193**	**–**	**330,981**
Additions	–	786	2,467	137	13	19,794	488	–	**23,685**
Assets of disposal group held for sale / discontinued operations	(130)	(99)	(13,496)	(254)	(33)	(93)	(1,579)	–	**(15,684)**
Change in rehabilitation provision	–	(225)	–	–	–	–	(496)	–	**(721)**
Transfers	3	8,249	15,523	1,814	49	(25,627)	(11)	–	**–**
Disposals	(318)	(1,205)	(3,192)	(705)	(203)	(1,308)	(129)	–	**(7,060)**
Exchange differences	357	1,845	6,159	100	142	42	643	–	**9,288**
At December 31, 2014	**3,122**	**73,577**	**114,942**	**30,902**	**1,299**	**102,538**	**14,109**	**–**	**340,489**
Additions	–	417	1,052	508	29	4,249	719	–	**6,974**
Change in rehabilitation provision	–	49	–	–	–	–	232	–	**281**
Transfers	59	4,886	1,607	171	24	(78,565)	14	71,804	**–**
Disposals	(10)	(474)	(3,196)	(1,170)	(156)	(1,378)	(156)	–	**(6,540)**
Exchange differences	142	(190)	(174)	(12)	40	(8)	–	–	**(202)**
At December 31, 2015	**3,313**	**78,265**	**114,231**	**30,399**	**1,236**	**26,836**	**14,918**	**71,804**	**341,002**
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**
Depreciation and impairment									
At January 1, 2014	**(98)**	**(24,141)**	**(63,885)**	**(11,749)**	**(903)**	**(47)**	**(3,905)**	**–**	**(104,728)**
Depreciation charge	–	(4,593)	(7,693)	(2,718)	(170)	–	(227)	–	**(15,401)**
Disposals	–	395	2,650	565	186	–	126	–	**3,922**
Assets of disposal group held for sale	109	88	12,756	245	28	81	1,345	–	**14,652**
Impairment	(124)	(2,414)	(5,345)	(82)	(15)	(16)	–	–	**(7,996)**
Exchange differences	(17)	(245)	(5,605)	(69)	(105)	(35)	(563)	–	**(6,639)**
At December 31, 2014	**(130)**	**(30,910)**	**(67,122)**	**(13,808)**	**(979)**	**(17)**	**(3,224)**	**–**	**(116,190)**
Depreciation charge	–	(5,008)	(5,627)	(2,745)	(56)	–	(218)	(334)	**(13,988)**
Disposals	9	396	2,619	1,092	146	16	54	–	**4,332**
Reversal of impairment/ (impairment)	67	(485)	1,331	6	(4)	(931)	–	–	**(16)**
Exchange differences	(5)	430	280	39	(40)	–	–	–	**704**
At December 31, 2015	**(59)**	**(35,577)**	**(68,519)**	**(15,416)**	**(933)**	**(932)**	**(3,388)**	**(334)**	**(125,158)**
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**
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)**
Net book value									
At January 1, 2014	**3,112**	**40,085**	**43,596**	**18,061**	**428**	**109,683**	**11,288**	**–**	**226,253**
At December 31, 2014	**2,992**	**42,667**	**47,820**	**17,094**	**320**	**102,521**	**10,885**	**–**	**224,299**
At December 31, 2015	**3,254**	**42,688**	**45,712**	**14,983**	**303**	**25,904**	**11,530**	**71,470**	**215,844**
At December 31, 2016	**2,798**	**41,754**	**41,429**	**12,522**	**89**	**19,552**	**11,999**	**74,210**	**204,353**

According to the results of the impairment analysis of non-current assets, impairment losses of RUB 1,700 million, RUB 16 million and RUB 7,996 million were recognized by the Group for the years ended December 31, 2016, 2015 and 2014, respectively (Note 18).

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

Assets under construction

As of December 31, 2016 and 2015, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 430 million and RUB 544 million, respectively.

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

Property pledged to the bank as security

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

	December 31, 2016	December 31, 2015
Net book value	117,047	33,510

Finance leases

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

	December 31, 2016	December 31, 2015
Net book value − operating machinery and equipment	2,825	4,253
Net book value − transportation vehicles	9,265	12,332

Additions of machinery and equipment and transport under finance lease during the year ended December 31, 2016 amounted to RUB 386 million.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2016 was RUB 1,015 million (2015: RUB 1,954 million, 2014: RUB 9,254 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 10.28% (2015: 15.02%, 2014: 12.04%), which is the average rate of the borrowings.

18. Impairment of goodwill and other non-current assets

As of December 31, 2016 and 2015, the Group performed an impairment analysis of goodwill and other non-current assets on the level of cash generating units (CGU). For each 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, 2016**	**December 31, 2015**
Yakutugol	Mining	13,399	13,399
Bratsk Ferroalloy Plant	Steel	2,930	2,930
Southern Kuzbass Power Plant	Power	2,382	3,827
Kuzbass Power Sales Company	Power	1,026	1,026
Port Posiet	Mining	756	756
Chelyabinsk Metallurgical Plant	Steel	580	672
Southern Kuzbass Coal Company	Mining	143	143
Mechel Temryuk	Mining	69	69
Total		**21,285**	**22,822**

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

As of December 31, 2016 and 2015, 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, 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, 2016 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, 2015	**2016**	**2017**	**2018**	**2019**	**2020**
Inflation rate in Russia..............................	7.5%	5.6%	5.2%	4.6%	4.3%
Inflation rate in Europeans countries.........	2.6%	2.6%	2.4%	2.3%	2.3%
Discount rate, %	8.5%-18.9%	8.5%-18.9%	8.5%-18.9%	8.5%-18.9%	8.5%-18.9%
For 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 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, 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 increased forecasted costs..

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

Cash generating units	**Impairment loss on goodwill at December 31, 2015**
Southern Kuzbass Power Plant (SKPP)...	1,444
Total..	**1,444**

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

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

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, 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**

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

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

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

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

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

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

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

Sensitivity analysis

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

Based on the sensitivity analysis carried out as of December 31, 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.

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: decrease in sales prices by 3.7% at Izhstal, decrease in sales prices by 1.3% at KPSC.

The recoverable amounts of KPSC and Izhstal based on key assumptions exceed the carrying amounts by RUB 3,403 million and by RUB 5,405 million, respectively.

Effects of reasonably possible changes in other key assumptions used in recoverable amount of CGUs as of December 31, 2016 do not lead to excess of carrying value over recoverable value.

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

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

19. Intangible assets

	Goodwill	Mineral licenses
Cost		
At January 1, 2014	**32,781**	**126,680**
Assets of disposal group held for sale / discontinued operations	–	(122,002)
Exchange differences	682	51,034
At December 31, 2014	**33,463**	**55,712**
Additions	–	71
Disposal	(88)	–
Exchange differences	(174)	–
At December 31, 2015	**33,201**	**55,783**
Additions	–	–
Disposal	–	–
Exchange differences	(2,286)	–
At December 31, 2016	**30,915**	**55,783**
Amortisation and impairment		
At January 1, 2014	**(10,261)**	**(74,953)**
Depletion	–	(1,759)
Assets of disposal group held for sale / discontinued operations	–	105,075
Exchange differences	(505)	(43,953)
At December 31, 2014	**(10,766)**	**(15,590)**
Impairment	(1,444)	–
Depletion	–	(1,676)
Disposal	88	–
Exchange differences	299	–
At December 31, 2015	**(11,823)**	**(17,266)**
Impairment	(2,930)	(572)
Depletion	–	(1,846)
Disposal	–	–
Exchange differences	2,193	–
At December 31, 2016	**(12,560)**	**(19,684)**
Net book value		
At January 1, 2014	**22,520**	**51,727**
At December 31, 2014	**22,697**	**40,122**
At December 31, 2015	**21,378**	**38,517**
At December 31, 2016	**18,355**	**36,099**

Most of the existing mineral licenses (97%) relate to coal mines and were recorded upon acquisition of mining subsidiaries. The carrying values of the mineral licenses were reduced proportionate to the depletion of the respective mineral reserves at each deposit related to mining and production of reserves adjusted for the reserves re-measurement and purchase accounting effects. Reduction in carrying values of the mineral licenses is included in the depletion charge for the period within the Cost of goods sold in the consolidated statement of profit (loss) and other comprehensive income (loss). No residual value is assumed in the mineral license valuation.

To determine the value of the mineral licenses as of December 31, 2016, the Group used quantities of underlying mineral assets, production data and other factors, including economic viability and any new exploration data.

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

As of December 31, 2016 and 2015, the Group performed an impairment analysis of goodwill (Note 18).

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

20. Income tax

The major components of income tax (expense) benefit for the years ended December 31, 2016, 2015 and 2014 are:

Recognised in profit or loss	**2016**	**2015**	**2014**
Current income tax			
Current income tax charge	(555)	(361)	(396)
Adjustments in respect of income tax related to previous years, including income tax penalties and changes in uncertain income tax position	766	(15)	(6,307)
Deferred tax			
Relating to origination and reversal of temporary differences	(5,104)	(7,946)	15,525
Income tax (expense) benefit reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	**(4,893)**	**(8,322)**	**8,822**

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, 2016 and 2015. As of January 1, 2013, the consolidated group of taxpayers consisted of 16 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. As of January 1, 2014, the number of subsidiaries included in the consolidated group of taxpayers increased to 20 participants and did not change as of December 31, 2015 and 2016.

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 2013-2016, income tax was calculated at 20% of taxable profit in Russia, at 10.8% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan 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 21% since April 1, 2014 to 20% since April 1, 2015.

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 financial statements is as follows:

	2016	**2015**	**2014**
Profit (loss) before tax from continuing operations	**14,151**	**(107,128)**	**(131,087)**
Income tax (expense) benefit at statutory income tax rate of 20%	**(2,830)**	**21,426**	**26,217**
Adjustments:			
Adjustments in respect of income tax related to previous years, including income tax penalties and changes in uncertain income tax position.	766	(15)	(6,307)
Unrecognized current year tax losses and write-off of previously recognized asset on tax losses	513	(19,822)	286
Non-deductible expenses for tax purposes	(1,317)	(4,341)	(7,318)
Non-deductible interest expense	(1,055)	(2,588)	(3,815)
Non-deductible penalties on breach of credit agreements	(1,152)	(3,025)	–
Effect of different tax rates in foreign jurisdictions	182	26	(37)
Effect of the disposal of subsidiaries	–	17	(204)
At the effective income tax rate of 34.6% (7.8% in 2015, 6.7% in 2014)	**(4,893)**	**(8,322)**	**8,822**
Income tax (expense) benefit reported in the consolidated statement of profit (loss) and other comprehensive income (loss)	**(4,893)**	**(8,322)**	**8,822**

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

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

On January 9, 2014, the Group failed to sustain its position in the court with respect to the income tax claims in the amount of RUB 3,977 million, including penalties and fines. The Group recognized this income tax as income tax expense in the amount of RUB 3,666 million included in the line Adjustments in respect of current income tax of previous years and penalty in the amount of RUB 311 million included in line Tax penalties and interest in the income tax reconciliation in 2014. During 2016, the Group delayed payments and new payment schedule agreed by 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.

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

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

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

	January 1, 2015	Tax (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 & borrowings	3,428	(3,205)	−	1	224
Finance lease liabilities	1,639	(133)	−	2	1,508
Accounts payable and other liabilities	1,041	(279)	−	1	763
Net operating loss carry-forwards	16,861	(6,258)	3	5	10,611
Other	328	(4)	−	−	324
Deferred tax liabilities					
Property, plant and equipment	(16,480)	308	−	(27)	(16,199)
Mineral licenses	(8,020)	319	−	−	(7,701)
Rehabilitation provision	(27)	19	−	−	(8)
Inventory	(970)	372	−	(6)	(604)
Accounts receivable	(109)	62	−	−	(47)
Bad debt allowance	(177)	−	−	−	(177)
Loans & borrowings	(604)	151	−	(1)	(454)
Accounts payable and other liabilities	(78)	(35)	−	−	(113)
Other	(563)	103	−	(15)	(475)
Deferred tax assets (liabilities), net	**(1,615)**	**(7,946)**	**(29)**	**(8)**	**(9,598)**

	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 & 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 & 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)**

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

Recognised in the consolidated statement of financial position information

	December 31, 2016	December 31, 2015
Deferred tax assets	1,502	1,492
Deferred tax liabilities	(16,282)	(11,090)
Deferred tax liabilities, net	**(14,780)**	**(9,598)**

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 38,068 million (2015: RUB 37,747 million) on losses in the amount of RUB 208,748 million (2015: RUB 201,624 million) that are available to carry forward against future taxable income of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will be available for utilization of such assets. Deferred tax assets on net operating loss carry forwards which are considered to be realized in the future, are mostly related to the Russian subsidiaries.

A deferred tax liability of approximately RUB 288 million and RUB 208 million as of December 31, 2016 and 2015, respectively, has not been recognised for temporary differences related to the Group's investment in foreign subsidiaries primarily as a result of unremitted earnings of consolidated subsidiaries, as it is the Group's intention, generally, to reinvest such earnings permanently.

Similarly, a deferred tax liability of nil as of December 31, 2016 (RUB 817 million as of December 31, 2015, respectively) has not been recognised for temporary difference related to unremitted earnings of consolidated domestic subsidiaries as management believes the Group has both the ability and intention to effect a tax-free reorganization or merger of major subsidiaries into Mechel. There are no income tax consequences attached to the payment of dividends by the Group to its shareholders.

Probable income tax risks of approximately RUB 162 million and RUB 1,136 million as of December 31, 2016 and 2015, respectively, have been recorded in the Group's consolidated financial statements. Possible income tax risks of approximately RUB 1,119 million and RUB 131 million as of December 31, 2016 and 2015, respectively, have not been recognised in the Group's consolidated financial statements. Probable tax risks decreased as a result of tax examinations for related periods and a lapse of the applicable statute of limitations. Increase in possible tax risks occurred due to tax positions taken during the current period.

21. Trade and other payables

	December 31, 2016	December 31, 2015
Trade payables	21,335	26,373
Other payables	19,650	28,229
Total trade and other payables	**40,985**	**54,602**

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

	December 31, 2016	December 31, 2015
Other payables		
Accounts payable for fixed assets	2,964	3,593
Salaries payable	1,475	1,483
Accruals for breach of contract terms	745	1,281
Dividends payable, common shares	–	36
Other	14,466	21,836
Total	**19,650**	**28,229**

The balance of other payables includes payables for the acquisition of DEMP of RUB 8,032 million and RUB 14,799 million as of December 31, 2016 and 2015, respectively.

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

22. Provisions

	Rehabilitation provision	Provisions for legal claims	Tax provisions	Other provisions	Total
At January 1, 2014	**4,400**	**421**	**548**	**465**	**5,834**
Arising during the year	284	1,006	41	68	**1,399**
Utilized	–	(160)	(22)	(103)	**(285)**
Revision in estimated cash flow	548	–	–	–	**548**
Unused amounts reversed	–	(178)	(116)	–	**(294)**
Discount rate adjustment and imputed interest	(1,736)	–	–	–	**(1,736)**
Liabilities of disposal group held for sale/Discontinued operations	(297)	–	–	(213)	**(510)**
Exchange rate differences	–	–	169	3	**172**
At December 31, 2014	**3,199**	**1,089**	**620**	**220**	**5,128**
Current	**201**	**1,089**	**620**	**220**	**2,130**
Non-current	**2,998**	**–**	**–**	**–**	**2,998**
Arising during the year	403	1,321	361	27	**2,112**
Utilized	–	(513)	(504)	(81)	**(1,098)**
Revision in estimated cash flow	(1,027)	–	–	–	**(1,027)**
Unused amounts reversed	–	(325)	(101)	–	**(426)**
Discount rate adjustment and imputed interest	1,129	–	–	–	**1,129**
Exchange rate differences	–	–	104	49	**153**
At December 31, 2015	**3,704**	**1,572**	**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 rate 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**

Rehabilitation provision

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

Provisions for legal claims

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

Tax provisions

Management believes that it has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group recorded RUB 760 million and RUB 480 million of other tax claims that management believes are probable as of December 31, 2016 and 2015, 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 financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2016.

23. Pensions and other post-employment benefit plans

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

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

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

Before the end of June 2016, 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 voluntary started to make settlements to new coming pensioners until the new pension fund would be selected by the Group.

As of December 31, 2016, there were 50,369 active participants under the defined benefit pension plans and other long-term benefit plans and 39,551 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2015 and January 1, 2015, the related figures were 54,866 and 56,508 of active participants under the defined benefit pension plans and other long-term benefits and 39,201 and 40,574 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 pension and other post-employment and postretirement benefits for the major subsidiaries was performed in February 2017, with the measurement date of December 31, 2016. 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, 2016 the amount of pension obligations includes defined benefit obligations in the amount of RUB 3,640 million and other long-term benefits obligation in the amount of RUB 805 million (RUB 4,075 million and 791 million as of December 31, 2015, respectively).

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

Changes in the present value of the defined benefit obligations and other long-term benefits and fair value of plan assets for 2014 were as follows:

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

Changes in the present value of the defined benefit obligations and 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)**

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

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)**

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

	December 31, 2016	December 31, 2015
Current liabilities	(944)	(1,120)
Non-current liabilities	(3,501)	(3,746)
Total net pension obligations	**(4,445)**	**(4,866)**

The plan asset allocation of the investment portfolio was as follows as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Debt instruments	142	179
Equity instruments	64	80
Cash and cash equivalents	23	29
Property	9	11
Other assets	14	19
Total plan assets	**252**	**318**

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

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

Staff reduction, curtailments and amendments of benefit programs at several entities lead to appropriate curtailment gains and past service costs in reporting periods. Most of the Group's entities have a practice of lump-sum financial support to former employees, so the risk of human longevity is less significant than in the case of life-long benefits. This risk is controlled by using rather conservative life expectancy tables. The risk of a significant fluctuation in interest rates is offset by rather conservative actuarial assumptions in respect of discount rates. The Group does not identify the unusual, specific business plan or risk, as well as any significant risk concentrations. The Group performs sensitivity analysis calculating 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 assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation and other long-term benefits obligation is about 6 years at both reporting dates.

The key actuarial assumptions used to determine benefit obligations were as follows as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Discount rate		
Russian entities	8.5%	9.70%
German entities	1.50%	1.93%
Ukrainian entity	11.10%	varying from 9.6% to 8%
Austrian entities	1.50%	2.0%
Inflation rates		
Russian entities	5.00%	5.80%
Ukrainian entity	8.60%	7.60%
Expected return on plan assets		
Austrian entities	4.70%	1.74%
Rate of compensation increase		
Russian entities	6.00%	7.10%
German entities	4.00%	4.00%
Ukrainian entity	11.60%	10.60%
Austrian entities	2.25%	2.25%

The results of sensitivity analysis of pension benefit obligation for the Russian and Ukrainian entities as of December 31, 2016 and 2015 are presented below:

	2016	2015
Discount rate		
1% increase	-7.73%	-6.98%
1% decrease	9.13%	6.20%
Inflation rate		
1% increase	5.93%	3.40%
1% decrease	-5.00%	-4.65%
Rate of compensation increase		
1% increase	2.76%	2.18%
1% decrease	-2.51%	-4.09%
Turnover rate		
3% increase	-5.20%	-4.65%
3% decrease	7.07%	4.27%

The results of sensitivity analysis of pension benefit obligation for Austrian entities as of December 31, 2016 and 2015 are presented below:

	2016	2015
Discount rate		
1% increase	-10.10%	-9.90%
1% decrease	12.20%	11.90%

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

The results of sensitivity analysis of pension benefit obligation for German entities as of December 31, 2016 and 2015 are presented below:

	2016	2015
Discount rate		
1% increase	-12.00%	-12.00%
1% decrease	18.00%	18.00%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation and other long-term benefits obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other 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 same method has been applied for the sensitivity analysis as when calculation the recognised pension liability.

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

	December 31, 2016
Within the next 12 months (next annual reporting period)	944
Between 2 and 5 years	1,413
Between 5 and 10 years	1,376
Beyond 10 years	510
Total expected payments	**4,243**

24. Taxes and similar charges payable (Other than Income Tax)

	December 31, 2016	December 31, 2015
VAT payable	4,274	2,364
Payroll taxes	3,029	3,622
Property tax	920	696
Land lease	342	478
Mineral extraction tax	277	172
Land tax	223	557
Other	130	145
Total	**9,195**	**8,034**

25. Issued capital and reserves

Common shares

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

Preferred shares

On April 30, 2008 Mechel's Extraordinary Shareholders' Meeting adopted changes to its Charter, authorizing up to 138,756,915 preferred shares with a nominal value of 10 Russian rubles each (representing 25% of the Mechel PAO's share capital). Under the Russian law and the Mechel PAO's Charter, these stocks are non-cumulative and have no voting rights, except cases, stipulated by the law, including, 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 to 138,756,915 issued preferred stock.

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

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, 2016, one of the Group's subsidiaries declared a dividend of RUB 2,525 thousand and Mechel declared a dividend of RUB 4,163 thousand to the holders of preferred shares for 2015. The dividends declared for 2015 were partially paid to the shareholders during the year ended December 31, 2016 in the amount of RUB 4,799 thousand.

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

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

Additional-paid-in-capital

In 2015, additional-paid-in-capital was increased by RUB 2,730 million due to the acquisition of non-controlling interests of 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 ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2016	2015	2014
Net profit (loss) from continuing operations	9,258	(115,450)	(122,265)
Less: net income (loss) from continuing operations attributable to non-controlling interests	1,771	458	(1,564)
Net income (loss) attributable to ordinary equity holders from continuing operations	**7,487**	**(115,908)**	**(120,701)**
Net (loss) income from discontinued operations	(426)	822	(11,702)
Less: net income from discontinued operations attributable to non-controlling interests	(65)	77	301
Net profit (loss) attributable to ordinary equity holders from discontinued operations	**(361)**	**745**	**(12,003)**
Profit (loss) attributable to ordinary equity holders	**7,126**	**(115,163)**	**(132,704)**

There were no dilutive securities issued as of December 31, 2016, 2015 and 2014.

	2016	2015	2014
Profit (loss) per share total (Russian rubles per share), including:	**17.12**	**(276.65)**	**(318.79)**
- from continuing operations (Russian rubles per share)	*17.99*	*(278.44)*	*(289.96)*
- from discontinued operations (Russian rubles per share)	*(0.87)*	*1.79*	*(28.83)*

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

26. Other income/expenses

26.1 Administrative and other operating expenses

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

	2016	2015	2014
Wages, salaries and social security costs	10,267	8,287	7,637
Office expenses	1,397	1,333	1,274
Pension costs	1,387	1,095	885
Depreciation	716	690	1,033
Audit and consulting services	569	570	625
Fines and penalties related to business contracts	487	236	275
Social expenses	452	387	444
Consumables	411	437	432
Banking charges and services	268	168	222
Rent	259	259	242
Business trips	136	165	154
Write off of accounts receivable	113	247	185
Provision for legal claims, net	59	996	656
Loss from disposal of property, plant and equipment	57	806	524
Other	2,213	1,624	1,727
Total	**18,791**	**17,300**	**16,315**

26.2 Employee benefits expense

Employee benefits expenses are comprised of the following:

	2016	2015	2014
Included in cost of sales			
Wages and salaries	19,806	19,867	20,083
Social security costs	5,909	6,181	6,331
Post-employment benefits	126	157	146
Included in selling and distribution expenses			
Wages and salaries	4,029	3,966	3,928
Social security costs	1,015	1,024	863
Post-employment benefits	–	–	1
Included in administrative and other operating expenses			
Wages and salaries	9,510	7,631	6,976
Social security costs	2,144	1,751	1,546
Total	**42,539**	**40,577**	**39,874**

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

26.3 Other operating income

Other operating income is comprised of the following:

	2016	2015	2014
Curtailment and remeasurement of pension obligations	392	142	58
Revision in estimated cash flows of rehabilitation provision	375	47	236
Gain on fines and penalties related to business contracts	248	–	–
Gain from sales of scrap materials	190	184	20
Insurance compensation	153	–	–
Other operating income	495	–	557
Total	**1,853**	**373**	**871**

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

In 2016, the Group recognized curtailment gain on cancellation of the certain pension programs for workers of Yakutugol, Mechel-Remservice OOO. In 2015, the Group recognised curtailment gain on DEMP pension obligations due to mass layoffs of employees and decrease in salaries conditioned by the situation in Ukraine. In 2014, the Group recorded effect of defined benefits plans amendments at BMP and SKCC.

26.4 Finance income

Finance income is comprised of the following:

	2016	2015	2014
Waiving of fines and penalties on loans and finance leases	992	–	–
Interest income from investments	177	134	98
Income from the discounting of financial instruments	7	49	9
Total	**1,176**	**183**	**107**

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

26.5 Finance costs

Finance costs are comprised of the following:

	2016	2015	2014
Interest on loans and borrowings	(44,164)	(38,664)	(23,758)
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	(5,538)	(18,525)	(1,516)
Finance charges payable under finance leases	(1,500)	(1,673)	(1,816)
Fines and penalties on overdue finance leases	(475)	(642)	(313)
Total finance costs related to loans, borrowings and finance leases	**(51,677)**	**(59,504)**	**(27,403)**
Interest expenses under pension liabilities	(368)	(400)	(297)
Expenses related to discounting of financial instruments	(1,956)	(175)	(154)
Unwinding of discount on provisions	(239)	(373)	(256)
Total	**(54,240)**	**(60,452)**	**(28,110)**

The interest on loans and borrowings includes fines and penalties on overdue loans and borrowing payments and overdue interest payments of RUB 5,538 million, RUB 18,525 million and RUB 1,516 million for 2016, 2015 and 2014, respectively. The finance charges payable under finance leases includes fines and penalties on overdue finance lease payments of RUB 475 million, RUB 642 million and RUB 313 million for 2016, 2015 and 2014, 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 1,898 million (2015: nil) (Note 6 and Note 10.4).

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

26.6 Other income and other expenses

Other income is comprised of the following:

	2016	2015	2014
Gain on final settlements from subsidiaries' disposal occurred in previous years	194	–	–
Royalties associated with Bluestone disposal	121	–	–
Gain on accounts payable with expired legal term	115	222	37
Dividends received	3	8	–
Gain on sale of investments in equity securities	–	–	483
Gain on sales and purchases of foreign currencies	–	–	143
Other income	165	112	1
Total	**598**	**342**	**664**

Other expenses are comprised of the following:

	2016	2015	2014
VEB commissions write off	(1,411)	–	–
Provision on non-recoverable advances to pension funds	(408)	–	–
Loss on sales and purchases of foreign currencies	(130)	(273)	–
Loss on sale of investments in equity securities	(8)	–	–
Loss from disposal of subsidiaries	–	(19)	(89)
Loss on securities repurchase agreement	–	–	(1,297)
Other expenses	(46)	(55)	(100)
Total	**(2,003)**	**(347)**	**(1,486)**

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

Gain (loss) on sale of investments occurred as a result of disposal of investments in equity securities to third parties in 2014-2016. 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.

27. 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.

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

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

Year ended December 31, 2016	**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 property, plant and equipment	(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**
Loss from associates	(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)**
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)**
Income tax (expense) benefit	(5,019)	265	(139)	–	**(4,893)**

Year ended December 31, 2015	**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 property, plant and equipment	(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**
Loss for the year	(71,563)	(40,626)	(2,121)	(318)	**(114,628)**
Segment assets	217,393	113,985	10,694	–	**342,072**
Segment liabilities	375,153	216,771	12,002	–	**603,926**
Investments in associates	284	–	–	–	**284**
Goodwill	14,367	3,603	3,408	–	**21,378**
Capital expenditures	(4,971)	(520)	(486)	–	**(5,977)**
Income tax (expense) benefit	(5,630)	(2,795)	103	–	**(8,322)**

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

Year ended December 31, 2014	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenues from external customers	79,509	138,660	25,823	–	**243,992**
Inter-segment revenues	21,049	8,207	13,731	(42,987)	**–**
Gross profit	49,123	31,382	10,339	91	**90,935**
Gross margin, %	48.9	21.4	26.1	–	**37.3**
Depreciation and depletion	(8,747)	(5,391)	(291)	–	**(14,429)**
Loss on write-off of property, plant and equipment	(309)	(242)	(110)	–	**(661)**
Impairment of goodwill and non-current assets	19	(8,015)	–	–	**(7,996)**
Operating profit (loss)	1,718	(1,318)	416	91	**907**
Income (loss) from associates	14	(7)	–	–	**7**
Finance income	74	32	1	–	**107**
Intersegment finance income	704	358	46	(1,108)	**–**
Finance cost	(14,852)	(12,296)	(962)	–	**(28,110)**
Intersegment finance cost	(183)	(679)	(246)	1,108	**–**
Profit (loss) after tax for the year from discontinued operations, net	(13,141)	1,468	(29)	–	**(11,702)**
Loss for the year	(87,758)	(45,765)	(535)	91	**(133,967)**
Capital expenditures	(13,117)	(3,089)	(300)	–	**(16,506)**
Income tax benefit	8,435	374	13	–	**8,822**

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.

	2016	**2015**	**2014**
Domestic			
Russia	164,361	146,701	141,096
Other	22,252	20,817	19,488
Total	**186,613**	**167,518**	**160,584**
Export	89,396	85,623	83,408
Total revenue	**276,009**	**253,141**	**243,992**

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

	2016	**2015**	**2014**
Russia	164,412	146,754	141,179
Asia	54,114	40,119	41,177
Europe	34,126	39,019	34,233
CIS	18,630	20,231	21,837
Middle East	1,536	4,222	3,596
USA	707	581	531
Other regions	2,484	2,215	1,439
Total	**276,009**	**253,141**	**243,992**

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

	December 31, 2016	**December 31, 2015**
Russia	238,175	250,868
Germany	1,415	2,051
Austria	581	780
Czech Republic	206	285
Romania	40	266
Other	35	111
Total	**240,452**	**254,361**

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

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

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

	2016	2015	2014
Mining segment			
Coal and middlings	75,258	64,186	62,385
Coke and chemical products	11,330	11,756	10,849
Iron ore concentrate	126	1,844	4,011
Other	2,933	2,846	2,264
Total	**89,647**	**80,632**	**79,509**
Steel segment			
Long steel products	89,575	73,853	71,064
Hardware	24,580	23,443	22,396
Flat steel products	18,230	17,490	14,646
Forgings and stampings	11,652	12,166	11,843
Semi-finished steel products	3,434	5,027	2,834
Ferrosilicon	3,368	3,528	2,713
Steel pipes	3,286	3,308	3,391
Other	7,514	7,217	9,773
Total	**161,639**	**146,032**	**138,660**
Power segment			
Electricity	22,527	24,524	23,628
Other	2,196	1,953	2,195
Total	**24,723**	**26,477**	**25,823**
Total revenue	**276,009**	**253,141**	**243,992**

28. 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, 2016 and 2015, the total Group's contractual commitments to acquire property, plant and equipment amounted to RUB 21,932 million and RUB 23,231 million, respectively. Included in the commitments related to acquisition of property, plant and equipment are amounts arising from various purchase agreements in respect of railway and related infrastructure facilities construction for the Elga project. The total amount of remaining commitments under the construction contracts as of December 31, 2016 and 2015 is equal to RUB 17,783 million and RUB 19,890 million, respectively.

Operating lease commitments

The Group has entered into operating property and land leases with lease terms between 2016 and 2064. Property and land lease expenses amounted to RUB 1,829 million and RUB 1,792 million for the years ended December 31, 2016 and 2015, respectively. Future minimum rentals payable under non-cancellable operating leases as of December 31, 2016 are, as follows:

	December 31, 2016
Within one year	1,870
After one year but not more than five years	7,396
More than five years	54,595
Total rental payable	**63,861**

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

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

Finance lease commitments

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

	Minimum payments		Present value of payments	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Payable in 1 year	12,312	17,004	10,175	13,507
Payable in 2 years	280	360	225	304
Payable in 3 years	106	169	74	157
Payable in 4 years	83	19	64	19
Payable in 5 years and thereafter	61	1	58	1
Total minimum lease payment	**12,842**	**17,553**	**10,596**	**13,988**
Less amounts representing finance charges	(2,246)	(3,565)	–	–
Present value of finance lease liabilities	**10,596**	**13,988**	**10,596**	**13,988**
Current portion of finance lease liabilities			10,175	13,507
Non-current portion of finance lease liabilities			421	481

The discount rate used for the calculation of the present value of minimum lease payments equals the implicit rate for the lessor and varies on different groups of equipment from 10.4% p.a. to 11.4% p.a. (U.S. dollar-denominated contracts), from 5.7% p.a. to 16.4% p.a. (euro-denominated contracts) and from 6.2% p.a. to 15.3% p.a. (Russian ruble-denominated contracts). Interest expense charged to the consolidated statements of profit (loss) and other comprehensive income (loss) in 2016 and 2015 amounted to RUB 1,500 million and RUB 1,673 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, 2016 and 2015, the Group was not in compliance with all major Group's restrictive covenants. There was also a breach of restrictive covenants on overdue principal amount of RUB 417 million and RUB 3,523 million as of December 31, 2016 and 2015, respectively. As a result, the long-term finance lease liability of RUB 6,903 million and RUB 7,748 million was reclassified to short-term finance lease liabilities due to covenant violations as of December 31, 2016 and 2015, respectively.

The total amount of commitments under the signed lease contracts as of December 31, 2016 and 2015 is equal to RUB 103 million and nil, respectively.

Contingencies

Legal claim contingency

The Group's business activities expose it to a variety of lawsuits and claims which are monitored, assessed and contested on the ongoing basis. Where management believes that a lawsuit or another claim would result in the outflow of the economic benefits for the Group, a best estimate of such outflow is included in provisions in the consolidated financial statements (Note 22).

As of December 31, 2016, the management assesses the outflow as possible for the claims of Minmetals Engineering Co. Ltd to the Group. Minmetals Engineering Co. Ltd sued CMP for work performed of $143,023 thousand (RUB 8,675 million at exchange rate as of December 31, 2016). CMP issued a claim to Minmetals Engineering Co. Ltd in the amount of $57,568 thousand (RUB 3,492 million at exchange rate as of December 31, 2016) and 4,189 thousand euro (RUB 267 million at exchange rate as of December 31, 2016). The amount of an outflow of resources embodying economic benefits for this claim cannot be measured reliably.

Guarantees

As of December 31, 2016, the Group guaranteed the fulfillment of obligations to third parties for the total amount of RUB 56 million. These guarantees are given by the Group under promissory notes, which were transferred by endorsement.

Environmental

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

The Group estimated the total amount of capital investments to address environmental concerns at its various subsidiaries at RUB 647 million and RUB 644 million as of December 31, 2016 and 2015, 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. Recent events within the Russian Federation suggest that tax authorities are taking more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of the taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

In 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 some jurisdictions agreements to avoid double taxation are signed between different jurisdictions; however, the risk of additional taxation exists, especially in respect of certain domiciles where some of the Group entities are located and which are considered to be tax havens.

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUB 1,000 million since 2014.

The tax audit on controlled transactions made in 2013 should have been commenced on or before December 31, 2015. In order to support the level of prices applied for the "controlled" transactions the Group should provide an 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 have the right to charge additional taxes, penalties and fines (tax liabilities).

In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course. The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognised in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

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

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 which 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. 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 undistributed profits of the controlled foreign corporation earned in the financial year ended prior to the reporting year provided that the financial year started on or after January 1, 2015.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Asser*, the Group recorded RUB 760 million and RUB 480 million of other tax claims that management believes are probable, as of December 31, 2016 and 2015, 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 financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2016.

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 976 million and nil as of December 31, 2016 and 2015, respectively.

29. Events after the reporting period

The Group evaluated subsequent events for these consolidated financial statements through the date when the financial statements were issued, April 26, 2017.

Call option agreement for preferred shares of the Group

As a part of the restructuring requirement, in January 2017, the Group signed a call option agreement with “VTB CAPITAL PLC” (the Buyer) providing the Buyer with an option to acquire a 5% stake (6,937,846 preferred shares) of the preferred shares of the Group. In accordance with this agreement, the Group is obliged to exercise the option between April 1, 2017 to December 31, 2020 in one of the following ways: sell to the Buyer 5% of preferred shares of the Group at a price of 47.3682 rubles per share or to pay cash to the Buyer 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 Buyer and the price of 47.3682 rubles per share or combination of these two option. Until the execution of the call option 6,937,846 preferred shares are pledged. In April 2017, VTB notified that the bank wants to exercise the option, but the Group has requested to extend the start day of the option period by 1 (one) year till April 1, 2018. Negotiations on amending the terms of the option are ongoing.

Confirmation of restructuring terms with the Russian state banks

In April 2017, the Group’s major lenders – Gazprombank, VTB and 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 ruble-denominated credit facilities and 3M LIBOR + 7% for U.S. dollar-denominated credit facilities.