CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2021

CONTENTS

Independent auditor's report

Translation of the original Russian version

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

Opinion

We have audited the consolidated financial statements of public joint stock company Mechel and its subsidiaries (the Group) for the year ended 31 December 2021, which comprise the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 4 to the consolidated financial statements, which indicates that, as at 31 December 2021, the Group has significant debt that it does not have the ability to repay without it refinancing or restructuring, and has not complied with certain covenants of its loan agreements with banks as at 31 December 2021. As stated in Note 4, these events or conditions, along with other matters as set forth in Note 4 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Translation of the original Russian version

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessments for goodwill and other non-current assets and impairment reversal assessments for other non-current assets	
As at 31 December 2021, the Group's management performed mandatory impairment test of cash-generating units with allocated goodwill, and also tested cash-generating units with property, plant and equipment, right-of-use assets and mineral licenses with identified indications of impairment or reversal of a previously recognized impairment in accordance with IAS 36, *Impairment of Assets*. As a result of performed tests, the Group's management recognized an impairment loss in respect of other non-current assets and income from reversal of a previously recognized impairment loss in respect of other non-current assets. The Group disclosed information on impairment tests and related impairment losses and reversals of previously recognized impairment in Note 16 to the consolidated financial statements. We consider this a key audit matter for our audit of the Group's consolidated financial statements due to materiality of respective non-current assets balance and high degree of subjectivity of assumptions used by the Group's management in the impairment tests. Auditing management's recoverability assessment was complex given the judgement and estimation uncertainty involved in determining certain assumptions due to the combination of highly volatile coal prices, ruble exchange rate fluctuations and uncertainty over the future economic growth that may negatively affect the Group's business prospects. Key assumptions included discount rates, forecasts of coal and steel product prices and sales volumes, terminal growth rates and operating costs. The key assumptions are forward looking, and subject to the inherent unpredictability of future global economic and market conditions which makes their determination particularly subjective and judgemental.	We tested controls over completeness and correctness of input data and over determination of key assumptions used by management in impairment tests. We considered management's analysis for identification of impairment indicators. We focused our procedures on the cash generating units with the significant carrying values, those for which impairment was recognized in prior periods and in the current year and those with the lowest difference between the recoverable amount and the carrying amount. Our procedures in respect of the impairment tests included, among others, analysis of key management's assumptions, such as discount rates, forecasts of coal and steel product prices and sales volumes, terminal growth rates and operating costs. We, with the assistance of our valuation specialists, analysed changes in assumptions from prior periods and performed a comparison of assumptions with external market data where applicable. We tested management's sensitivity analyses, evaluating whether a reasonably possible change in the key assumptions could cause the carrying amount to exceed the recoverable amount for the tested cash generating units. We evaluated influence of coal prices change and potential uncertainty in sale volumes due to the COVID-19 pandemic spread on the recoverable amounts. We also compared management's forecasts of prior periods to actual results. We assessed the adequacy of the disclosures related to impairment tests in the consolidated financial statements.

Translation of the original Russian version

Key audit matter	How our audit addressed the key audit matter
Assessment of the Group's ability to utilize accumulated tax losses of the consolidated group of taxpayers	
As stated in Note 18 to the consolidated financial statements, a number of the Russian subsidiaries of the Group are included in the consolidated group of taxpayers under agreement that terminates on 1 January 2023. Due to the fact that the consolidated group of taxpayers has accumulated a significant tax loss since its establishment, management performed an analysis to determine what portion of this accumulated tax loss could be used by the Group to reduce income tax in subsequent periods. We consider this a key audit matter due to the materiality of accumulated tax losses and their effect on deferred tax liabilities and assets of the Group, as well as due to the complex assessment process which is affected by subjective judgments made by management of the Group and a certain level of estimation uncertainty regarding the likely timing and the amount of future taxable profits to be generated to support the realization of the existing deferred tax assets before expiration. Key assumptions used by management included revenue and costs forecasts (coal and steel product prices and sales volumes, operating costs) that are affected by future market or economic conditions.	We tested internal controls implemented by management over assessment of the deferred tax asset related to the accumulated tax loss of the consolidated group of taxpayers, including controls over completeness and correctness of input data and determination of key assumptions used by management. We compared management's methodologies and key assumptions with those used in non-current assets impairment tests and going concern evaluation model, as well as with the requirements of the tax legislation. We tested these assumptions for sensitivity to reasonable possible changes and performed scenario analysis including stress testing. Possible scenarios, among others, included evaluation of uncertainty in sale volumes due to the COVID-19 pandemic impact. We tested the completeness and accuracy of the underlying data used in its projections. Our procedures, among others, included comparison of management's forecasts of future taxable profits with the budgets and forecasts used for non-current assets impairment tests and with the actual results of the consolidated group of taxpayers. We compared the projections of future taxable income with the actual results of prior periods, as well as evaluated management's consideration of current industry and economic trends. We involved our income tax professionals who assisted us in assessing the Group's application of the relevant tax regulations to the forecasted taxable income of the consolidated group of taxpayers. We assessed the adequacy of the disclosures related to deferred income taxes on the accumulated tax losses of the consolidated group of taxpayers in the consolidated financial statements.
Risks of improper revenue recognition	
Revenue from contracts with customers is a management's and stakeholders' focus area in terms of evaluating previous and expected results of the Group. Revenue per segments is disclosed in Note 25 to the consolidated financial statements. We consider the risk of material misstatement in revenue due to fraud at the Group's trading components to be significant in respect of the incorrect recognition of revenues in cases, when control has not been transferred, and risks and rewards have not passed to the customers, or when revenues are recorded for sales that either did not occur, or did not occur in the amounts recorded by management or when at the signing of the contract it is known that cash collection is not probable due to customer's solvency or liquidity problems.	We obtained understanding of the revenue recognition process and performed tests of relevant internal controls at the Group components, including controls over completeness and accuracy of data used to process sales transactions through contracting with customers to recording revenues. We analyzed conditions of new significant contracts with customers and changes in existing significant contracts and considered the Group's approach to recognition of respective revenues. Our procedures, among others, included tests of the revenues transactions on a sample basis recorded soon before and after the year-end at the Group's components level. We also evaluated responses to the inquiries of sales personnel about the occurrence of non-standard sales activities, including those related to the period near year-end, and about the non-standard conditions in contracts with customers.

Translation of the original Russian version

Key audit matter	How our audit addressed the key audit matter
We consider this a key audit matter due to significance of revenues from contracts with customers for the Group's performance assessment by the stakeholders, which might create pressure and incentives for the management to record revenues where control has not been transferred to the customers or consideration for goods and services is unlikely to be received, or to misstate the amounts of revenues.	We performed tests of sales transactions at the level of trading components over the whole year. For the selected samples, we obtained and tested evidence supporting the recognized amounts. In addition, we tested a sample of manual journals to revenue so as to identify unusual or irregular items. We analyzed revenue fluctuations by months and types of products and services, compared the Group's components contract prices to the market price levels and management budgets and performed the analysis of gross margin fluctuations. We performed analysis of customers profiles to evaluate their financial performance and conditions, and compared the results with the Groups' management analysis. We assessed the adequacy of the disclosures related to revenue recognition in the consolidated financial statements.

Other information included in the Group's annual report

Other information consists of the information included in the Group's Annual Report on Form 20-F, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report on Form 20-F is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Translation of the original Russian version

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is E.V. Khramova.

E.V. KHRAMOVA,
acting on behalf of Ernst & Young LLC
on the basis of power of attorney dated 1 March 2022,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 22006024953)

1 March 2022

Details of the auditor

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

Details of the audited entity

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

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended December 31, 2021

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

	Notes	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Continuing operations				
Revenue from contracts with customers	25	402,074	265,454	287,153
Cost of sales		(223,993)	(170,605)	(183,086)
Gross profit	25	**178,081**	**94,849**	**104,067**
Selling and distribution expenses		(54,721)	(49,994)	(48,432)
Impairment of goodwill and other non-current assets, net	16	(2,899)	(3,897)	(1,804)
Allowance for expected credit losses	11, 13	(201)	(149)	(234)
Taxes other than income taxes		(3,550)	(3,446)	(4,517)
Administrative and other operating expenses	23.1	(16,513)	(18,437)	(15,568)
Other operating income	23.3	2,469	999	688
Total selling, distribution and operating income and (expenses), net		**(75,415)**	**(74,924)**	**(69,867)**
Operating profit		**102,666**	**19,925**	**34,200**
Finance income	23.4	676	3,504	590
Finance costs	23.4	(23,371)	(25,145)	(33,863)
Foreign exchange gain (loss), net		7,891	(36,388)	18,288
Share of (loss) profit of associates, net	6	(7)	20	28
Other income	23.5	1,341	718	228
Other expenses	23.5	(66)	(259)	(483)
Total other income and (expense), net		**(13,536)**	**(57,550)**	**(15,212)**
Profit (loss) before tax from continuing operations		**89,130**	**(37,625)**	**18,988**
Income tax expense	18	(6,511)	(2,528)	(7,913)
Profit (loss) from continuing operations		**82,619**	**(40,153)**	**11,075**
Discontinued operations				
Profit (loss) after tax from discontinued operations	24	–	41,609	(6,790)
Profit		**82,619**	**1,456**	**4,285**
Attributable to:				
Equity shareholders of Mechel PAO		80,570	808	2,409
Non-controlling interests		2,049	648	1,876
Other comprehensive income				
Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods, net of tax		*(152)*	*2,042*	*(1,771)*
Exchange differences on translation of foreign operations		(152)	2,042	(1,771)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods, net of tax		*1,043*	*253*	*(867)*
Net (loss) gain on equity instruments designated at fair value through other comprehensive income		(27)	53	–
Re-measurement of defined benefit plans	20	1,070	200	(867)
Other comprehensive income (loss), net of tax		**891**	**2,295**	**(2,638)**
Total comprehensive income, net of tax		**83,510**	**3,751**	**1,647**
Attributable to:				
Equity shareholders of Mechel PAO		81,444	3,099	(210)
Non-controlling interests		2,066	652	1,857
Earnings per share				
Weighted average number of common shares	22	404,776,126	412,589,910	416,256,510
Earnings per share (Russian rubles per share) attributable to common equity shareholders – basic and diluted	22	199.05	1.96	5.79
Earnings (loss) per share from continuing operations (Russian rubles per share) – basic and diluted	22	199.05	(98.89)	22.10
Earnings (loss) per share from discontinued operations (Russian rubles per share) – basic and diluted	22	–	100.85	(16.31)

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

MECHEL PAO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2021

(All amounts are in millions of Russian rubles)

	Notes	December 31, 2021	December 31, 2020
Assets			
Non-current assets			
Property, plant and equipment	14, 16	75,509	81,345
Right-of-use assets	9.2	12,412	12,840
Mineral licenses	15	17,741	18,458
Goodwill and other intangible assets	15, 16	10,684	10,768
Other non-current assets	12	193	226
Investments in associates	6	334	341
Non-current financial assets		731	445
Deferred tax assets	18	4,989	561
Total non-current assets		**122,593**	**124,984**
Current assets			
Inventories	10	62,449	42,138
Income tax receivables		24	45
Other current assets	12	10,348	8,423
Trade and other receivables	11	24,315	16,403
Other current financial assets	9.4	100	141
Cash and cash equivalents	13	17,701	1,706
Total current assets		**114,937**	**68,856**
Total assets		**237,530**	**193,840**
Equity and liabilities			
Equity			
Common shares	22	4,163	4,163
Preferred shares	22	840	840
Treasury shares	22	(907)	(907)
Additional paid-in capital	22	23,410	23,410
Accumulated other comprehensive income		2,265	1,391
Accumulated deficit		(192,714)	(273,186)
Equity attributable to equity shareholders of Mechel PAO		**(162,943)**	**(244,289)**
Non-controlling interests		15,665	13,618
Total equity		**(147,278)**	**(230,671)**
Non-current liabilities			
Loans and borrowings	9.1	100	2,201
Lease liabilities	9.2	3,886	3,958
Other non-current financial liabilities	9.5	1,666	1,901
Other non-current liabilities		77	301
Pension obligations	20	3,974	5,232
Provisions	21	4,118	4,802
Deferred tax liabilities	18	7,548	6,773
Total non-current liabilities		**21,369**	**25,168**
Current liabilities			
Loans and borrowings	9.1	283,382	314,836
Lease liabilities	9.2	7,526	7,535
Trade and other payables	17	36,278	43,783
Other current financial liabilities	9.5	460	324
Income tax payable		6,409	7,843
Taxes and similar charges payable other than income tax	19	9,966	10,969
Advances received	25	14,200	6,067
Other current liabilities		241	1,038
Pension obligations	20	553	631
Provisions	21	4,424	6,317
Total current liabilities		**363,439**	**399,343**
Total liabilities		**384,808**	**424,511**
Total equity and liabilities		**237,530**	**193,840**

Chief Executive Officer of Mechel PAO ______________ Oleg V. Korzhov March 1, 2022

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «МЕЧЕЛ» МЕЧЕЛ ОГРН 1037703012896 Российская Федерация, г. Москва

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2021

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

		Attributable to equity shareholders of the parent											
		Common shares		Preferred shares		Treasury shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
	Notes	Quantity	Amount	Quantity	Amount	Quantity	Amount						
As of January 1, 2019		416,270,745	4,163	83,254,149	833	–	–	24,378	1,771	(274,647)	(243,502)	9,774	(233,728)
Profit		–	–	–	–	–	–	–	–	2,409	2,409	1,876	4,285
Other comprehensive income (loss)													
Re-measurement of defined benefit plans	20	–	–	–	–	–	–	–	(848)	–	(848)	(19)	(867)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(1,771)	–	(1,771)	–	(1,771)
Total comprehensive income (loss)		–	–	–	–	–	–	–	(2,619)	2,409	(210)	1,857	1,647
Sale of preferred shares kept as treasury shares by the Group	22	–	–	709,130	7	–	–	56	–	–	63	–	63
Reacquired common shares	22	–	–	–	–	(1,018,996)	(63)	–	–	–	(63)	–	(63)
Dividends declared to equity shareholders of Mechel PAO	22	–	–	–	–	–	–	–	–	(1,516)	(1,516)	–	(1,516)
As of December 31, 2019		416,270,745	4,163	83,963,279	840	(1,018,996)	(63)	24,434	(848)	(273,754)	(245,228)	11,631	(233,597)

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2021

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

		Attributable to equity shareholders of the parent											
		Common shares		Preferred shares		Treasury shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
	Notes	Quantity	Amount	Quantity	Amount	Quantity	Amount						
As of January 1, 2020		416,270,745	4,163	83,963,279	840	(1,018,996)	(63)	24,434	(848)	(273,754)	(245,228)	11,631	(233,597)
Profit		–	–	–	–	–	–	–	–	808	808	648	1,456
Other comprehensive income													
Re-measurement of equity instruments designated at fair value through OCI		–	–	–	–	–	–	–	53	–	53	–	53
Re-measurement of defined benefit plans	20	–	–	–	–	–	–	–	196	–	196	4	200
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	2,042	–	2,042	–	2,042
Total comprehensive income		–	–	–	–	–	–	–	2,291	808	3,099	652	3,751
Transfer of actuarial gains (losses) due to disposal of discontinued operations		–	–	–	–	–	–	–	(52)	52	–	–	–
Reacquired common shares	22	–	–	–	–	(10,475,623)	(844)	–	–	–	(844)	–	(844)
Dividends declared to equity shareholders of Mechel PAO	22	–	–	–	–	–	–	–	–	(292)	(292)	–	(292)
Sale and purchase of non-controlling interests	22	–	–	–	–	–	–	(1,024)	–	–	(1,024)	1,335	311
As of December 31, 2020		416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,410	1,391	(273,186)	(244,289)	13,618	(230,671)

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2021

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

		Attributable to equity shareholders of the parent											
		Common shares		Preferred shares		Treasury shares							
	Notes	Quantity	Amount	Quantity	Amount	Quantity	Amount	Additional paid-in capital	Accumu-lated other comprehen-sive income (loss)	Accumu-lated deficit	Equity attributable to share-holders of Mechel PAO	Non-controlling interests	Total equity
As of January 1, 2021		416,270,745	4,163	83,963,279	840	(11,494,619)	(907)	23,410	1,391	(273,186)	(244,289)	13,618	(230,671)
Profit		–	–	–	–	–	–	–	–	80,570	80,570	2,049	**82,619**
Other comprehensive income													
Re-measurement of equity instruments designated at fair value through OCI		–	–	–	–	–	–	–	(27)	–	(27)	–	**(27)**
Re-measurement of defined benefit plans	20	–	–	–	–	–	–	–	1,053	–	1,053	17	**1,070**
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(152)	–	(152)	–	**(152)**
Total comprehensive income		–	–	–	–	–	–	–	**874**	**80,570**	**81,444**	**2,066**	**83,510**
Dividends declared to equity shareholders of Mechel PAO	22	–	–	–	–	–	–	–	–	(98)	(98)	–	**(98)**
Dividends declared to non-controlling interests	22	–	–	–	–	–	–	–	–	–	–	(19)	**(19)**
As of December 31, 2021		**416,270,745**	**4,163**	**83,963,279**	**840**	**(11,494,619)**	**(907)**	**23,410**	**2,265**	**(192,714)**	**(162,943)**	**15,665**	**(147,278)**

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2021
(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2021	2020	2019
Cash flows from operating activities				
Profit (loss) from continuing operations		82,619	(40,153)	11,075
Profit (loss) after tax from discontinued operations	24	–	41,609	(6,790)
Profit		**82,619**	**1,456**	**4,285**
Adjustments to reconcile profit to net cash provided by operating activities				
Depreciation and amortisation		13,357	14,818	15,176
Foreign exchange (gain) loss, net		(7,891)	37,765	(19,241)
Deferred income tax (benefit) expense	18	(3,658)	2,574	2,288
Allowance for expected credit losses		201	149	235
Gain on restructuring and forgiveness of trade and other payables and write-off of trade and other payables with expired legal term		(1,312)	(122)	(167)
Write-off of inventories to net realisable value		769	928	1,763
Impairment of goodwill and other non-current assets, net and loss on write-off of non-current assets		3,302	4,350	2,880
Finance income		(676)	(3,504)	(600)
Finance costs	23.4, 24	23,371	26,853	38,830
Provisions for legal claims, income tax and other taxes and other provisions		(1,257)	24	3,630
Gain on sale of discontinued operations	24	–	(45,580)	–
Gain on disposal of a subsidiary		(1,130)	–	–
Other		(234)	(146)	203
Changes in working capital items				
Trade and other receivables		(8,692)	(236)	1,546
Inventories		(24,079)	(5,283)	(1,511)
Trade and other payables		(6,120)	1,137	4,037
Advances received		8,149	995	650
Taxes payable and other liabilities		10,583	4,580	5,151
Other assets		(2,224)	(1,474)	1,238
Income tax paid		(11,540)	(1,335)	(2,735)
Net cash provided by operating activities		**73,538**	**37,949**	**57,658**

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

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended December 31, 2021
(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2021	2020	2019
Cash flows from investing activities				
Interest received		436	129	76
Royalty and other proceeds associated with disposal of subsidiaries		–	–	17
Proceeds from loans issued and other investments		3	39	313
Proceeds from disposal of the discontinued operations, net of cash disposed of	24	–	88,979	–
Cash disposed of due to disposal of subsidiary		(15)	–	–
Proceeds from disposals of property, plant and equipment		332	119	211
Purchases of property, plant and equipment and intangible assets		(6,208)	(4,883)	(6,538)
Net cash (used in) provided by investing activities		**(5,452)**	**84,383**	**(5,921)**
Cash flows from financing activities				
Proceeds from loans and borrowings, including proceeds from factoring arrangement of nil, RUB 1 million and RUB 214 million for the periods ended December 31, 2021, 2020 and 2019, respectively	13	16,210	77,367	7,599
Repayment of loans and borrowings, including payments from factoring arrangement of RUB 117 million, RUB 353 million and RUB 2,222 million for the periods ended December 31, 2021, 2020 and 2019, respectively	13	(42,241)	(176,883)	(20,772)
Repurchase of common shares	22	–	(844)	–
Sale and purchase of non-controlling interest in subsidiaries	22	144	169	–
Dividends paid to shareholders of Mechel PAO	13	(98)	(292)	(1,515)
Dividends paid to non-controlling interests	13	(13)	(3)	(16)
Interest paid, including fines and penalties	13	(19,403)	(22,912)	(30,923)
Payment of principal portion of lease liabilities	13	(3,620)	(2,660)	(2,276)
Sale and leaseback transactions	13	(75)	462	248
Acquisition of assets under deferred payment terms	13	(95)	(508)	(341)
Deferred consideration paid for the acquisition of subsidiaries in prior periods	13	–	–	(361)
Net cash used in financing activities		**(49,191)**	**(126,104)**	**(48,357)**
Foreign exchange (loss) gain on cash and cash equivalents, net		(237)	(61)	(891)
Changes in allowance for expected credit losses on cash and cash equivalents	13	(19)	28	(2)
Net increase (decrease) in cash and cash equivalents		**18,639**	**(3,805)**	**2,487**
Cash and cash equivalents at beginning of period	13	1,706	3,509	1,803
Cash and cash equivalents, net of overdrafts at beginning of period	13	**(938)**	**2,867**	**380**
Cash and cash equivalents at end of period	13	17,701	1,706	3,509
Cash and cash equivalents, net of overdrafts at end of period	13	**17,701**	**(938)**	**2,867**

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

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

1. Corporate information

(a) Information

Mechel PAO ("Mechel" or "the parent", formerly – Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation. The registered office is located at Krasnoarmeyskaya St. 1, Moscow, 125167, Russian Federation. Igor V. Zyuzin with his family members is the ultimate controlling party. 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 / established	Interest in voting stock held by the Group at December 31, 2021
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	January 1999	99.1%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	December 2001	93.7%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 2002	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 2002	91.4%
Urals Stampings Plant (USP)	Russia	Steel products	April 2003	90.0%
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 sales	February 2004	100.0%
Port Posiet	Russia	Transshipment	February 2004	97.8%
Izhstal	Russia	Steel products	May 2004	90.0%
Port Kambarka	Russia	Transshipment	April 2005	90.4%
Mechel Service	Russia	Trading	May 2005	100.0%
Mechel Coke	Russia	Coke production	June 2006	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	October 2006	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 2007	98.3%
Kuzbass Power Sales Company (KPSC)	Russia	Electricity distribution	June 2007	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferrosilicon production	August 2007	100.0%
Yakutugol	Russia	Coal mining	October 2007	100.0%
Port Temryuk	Russia	Transshipment	March 2008	100.0%
Mechel Carbon AG	Switzerland	Trading	April 2008	100.0%
HBL Holding GmbH (HBL)	Germany	Trading	September 2008	100.0%
Mechel Service Stahlhandel Austria GmbH and its subsidiaries	Austria	Trading	September 2012	100.0%

(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 distribution) and heat power generation), and conducts operations in Russia, the CIS countries, Europe and Asia Pacific. The Group sells its products within Russia and foreign markets. As of December 31, 2021, there were no significant changes in the composition of the Group. The Group operates in highly competitive industries; any local or global downturn in the industry may have an adverse effect on the Group's results of operations and financial condition. While the Group has intention to continue to rely on operating cash flow, it expects to attract long-term loans and borrowings to finance major investment projects, focus on refinancing and restructuring of the loan portfolio and other financing sources for its capital needs. As discussed in Note 4, management believes that the Group will secure adequate financing.

(c) Authorisation for issuance

These consolidated financial statements as of December 31, 2021 and for the year then ended were authorised for issuance on March 1, 2022.

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 parent and its subsidiaries and associates for the purposes of preparation of the consolidated financial statements in accordance with IFRS have been translated and adjusted on the basis of the respective standalone RAS or other GAAP financial statements.

The accompanying consolidated financial statements differ from the financial statements issued for the RAS and other GAAP purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) purchase accounting; (2) recognition of interest expense and certain operating expenses; (3) valuation and depreciation of property, plant and equipment and mineral licenses; (4) defined benefit plans and other long-term benefits; (5) foreign currency translation; (6) deferred income taxes; (7) accounting for tax penalties, uncertainties and contingencies; (8) revenue recognition; (9) valuation allowances for unrecoverable assets; (10) accounting for financial instruments; (11) leases, (12) recording investments at fair value and (13) results of discontinued operations.

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, 2021, 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 parent and its subsidiaries for the year ended December 31, 2021. 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.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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 (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income. 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 IFRS 9 *Financial Instruments* ("IFRS 9"), is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

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 or loss and other comprehensive income.

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

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

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

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

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 or loss and other comprehensive income.

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

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

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

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

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

(e) Revenue from contracts with customers

Revenue from contracts with customers is recognised 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.

Revenue from contracts with customers is inflows from sales of goods that constitute ongoing major operations of the Group and is reported as such in the consolidated statement of profit or loss and other comprehensive income. Inflows from incidental and peripheral operations, net of related costs, are considered gains and are included in other operating income and other income in the consolidated statement of profit or loss and other comprehensive income.

The following criteria are also applicable to other specific revenue transactions from contracts with customers:

Sales of goods and rendering services

Revenue from the sale of goods and rendering services is recognised when (or as) the Group satisfies a performance obligation by transferring promised goods and services to a customer. An asset is transferred when (or as) the customer obtains control of the asset. When the Group is engaged into contracts for sales of goods which include transportation and freight services and the Group provides these services after the point where control over the goods is transferred to the customers, the Group accounts for two separate performance obligations: the obligation to provide goods to the customer and the obligation to arrange the delivery (transportation, freight) of goods to the customer. Revenue is recognised at a point of time when control over the goods passes to the customer (at the loading port, place or after delivery to the first carrier). Revenue related to freight and transportation component is recognised over time as the service is rendered. Transportation and freight services rendered by the Group in the contracts are presented within the caption "Revenue from contracts with external customers". Revenue from the sale of goods and rendering services is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, net of returns and allowances, trade discounts, associated sales taxes (VAT) and export duties.

Certain contracts are provisionally priced so that price is not settled until the final price based on the market price for the relevant period is determined. Revenue from these transactions is initially recognised based on related coal market indices. An adjustment to the final price on provisionally priced contracts is recorded in revenue.

Sales of power

In the Power segment (Note 25), revenue is recognised based on unit of power measure (kilowatts) delivered to customers, since the Group transfers control for a service or good over period and, therefore, satisfies a performance obligation over time. The billings are usually done on a monthly basis, several days after each month end.

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer.

Some contracts with customers provide a right of return, trade discounts or volume rebates. IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

Volume rebates

The Group applies the most likely amount method to estimate the variable consideration in the contract using the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price).

Significant financing component

The Group decided to use the practical expedient provided in IFRS 15, which allows not to adjust the promised amount of consideration for the effects of a significant financing component in the contracts where the Group expects, at contract inception, that the period between the Group's transfer of a promised good or service to a customer and the payment will be one year or less.

Warranty obligations

The Group provides warranties to its customers under the Russian Federation Law requirements. These warranties represent assurance type warranties and do not require providing any additional service to the Group's customers. This type of warranties is accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37").

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 3 (n).

Contract assets

Contract assets relate to revenue earned from performance that does not create an asset with an alternative use and there is an enforceable right to receive payment for performance completed to date of performance. As such, the balances of this account vary and depend on the number of orders in progress under these contracts at the end of the year.

Contract liabilities

Contract liabilities are presented by short-term advances received from customers and recognised as advances received in the consolidation statement of financial position. A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

The disclosure of significant accounting judgements relating to revenue from contracts with customers is provided in Note 3 (v).

(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* ("IAS 12") and IAS 37. 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 investment tax deductions, 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 investment tax deductions, 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.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred taxliabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(g) Foreign currencies

The Group's consolidated financial statements are presented in Russian rubles to comply with the Law 208-FZ. Russian ruble is also the parent's functional currency.

For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies of the main Russian and European subsidiaries of the Group are the Russian ruble and euro, respectively. The U.S. dollar is the functional currency of other main international operations of the Group. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency exchange rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates as of 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 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 the Russian Federation ("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 the Russian rubles at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at the average exchange rate for the period. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to 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 exchange rate as of 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. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

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

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

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

Additional disclosures are provided in Note 24. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

(i) Mineral licenses

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 requires 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 2038, with the most significant licenses expiring between 2024 and 2033, and management believes that they may be extended at the initiative of the Group without substantial cost, based on previous experience. Management intends to extend such licenses for deposits expected to remain productive subsequent to their license expiry dates.

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

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

The Group established a policy according to which internal mining engineers review proved and probable reserves annually. This policy does not change the Group's approach to the measurement of proved and probable reserves as of their acquisition dates as part of business combinations that involve independent mining engineers. When circumstances and other factors warrant an additional analysis, the Group engages independent mining engineers to review its proven and probable reserves. 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 have been reviewed and verified by independent mining engineers.

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 amortisation charge proportional to the depletion for the period within the cost of sales in the consolidated statement of profit or loss and other comprehensive income. No residual value is assumed in the mineral license valuation.

(j) Property, plant and equipment

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

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

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 considered as components of property, plant and equipment 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 depreciation 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. The Group had no exploration and evaluation assets as of December 31, 2021.

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

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

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

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

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

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

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

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

Other property, plant and equipment

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

Property, plant and equipment other than mining assets and processing plant and equipment is depreciated using the straight-line method, apart from railway of the Elga coal deposit which is depreciated using the units of production method as discussed in (w) Significant accounting judgements, estimates and assumptions. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the consolidated statement of profit or loss and other comprehensive income.

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

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(k) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has lease contracts for various items of land, operating machinery and equipment and transportation vehicles. None of them meets the definition of investment property.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Category of asset	**Years**
Buildings and constructions	2-120
Operating machinery and equipment	3-20
Transportation vehicles	2-22

The right-of-use assets related to land are depreciated using the straight-line method based on the period of land use (from 2 to 70 years).

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 3 (q).

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment, office and storage facilities (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Group also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Sale and leaseback transactions

The Group sells and leases back operating machinery and transportation vehicles. The Group keeps the transferred assets subject to the sale and leaseback transaction in the consolidated statement of financial position and accounts for amounts received as a financial liability due to intention to exercise repurchase option for the underlying assets set by contracts.

(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* (“IAS 23”), 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 or loss and other comprehensive income in the period in which they are incurred.

(m) Intangible assets

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

Intangible assets with determinable useful lives are amortised using the straight-line method over their estimated period of benefit, ranging from two to twenty five years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(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 subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 (Note 3 (e)).

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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 amortised cost;
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost

This category of financial assets is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

This category generally applies to trade and other receivables excluding trade receivables on provisionally priced contracts.

Financial assets at fair value through OCI (debt instruments)

The Group measures financial assets at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition of financial assets represented by debt instruments at fair value through OCI the cumulative fair value change recognised in OCI is recycled to profit or loss in opposite to equity instruments at fair value through OCI with the cumulative fair value change remained in OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Trade receivables on provisionally priced contracts are measured at fair value through profit or loss. Trade receivables on provisionally priced contracts are remeasured based on the market price for the relevant period. These trade receivables are initially measured at the amount which the Group expects to be entitled to, being the estimate of the price expected to be received at the end of the quotational period. The quotational periods can range between one and three months post shipment and final payment is due within 30 days from the end of the quotational period. Adjustments to the final price on provisionally priced contracts are recorded within revenue.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

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.

Allowance for expected credit losses of financial assets

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

- Financial assets – Note 9.
- Trade and other receivables – Note 11.

Allowance for expected credit losses is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime expected credit losses).

For purposes of measuring probability of default, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- The customer is more than 90 days past due on its contractual payments;
- International rating agencies have classified the customer in the default rating class;
- The customer meets the unlikeliness-to-pay criteria listed below:
  - The customer is insolvent;
  - The customer is in breach of financial covenants; and
  - It is becoming likely that the customer will enter bankruptcy.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date.

To estimate the allowance for expected credit losses for trade and other receivables the Group applied 2-dimension model. For individual significant balances with specific characteristics the individual allowance rates were applied based on the historical experience of relationships with those counterparties, individual analysis of their current financial position and forward-looking factors specific to the debtors and the economic environment. For all other balances which are similar by the nature the standard simplified approach was applied with the use of a provision matrix based on the Group's historical credit loss experience adjusted for forward-looking information. The provision rates are based on days past due for groupings of various homogeneous counterparties. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 9.3. The Group does not hold collateral as security.

Allowance for expected credit losses on cash and cash equivalents is calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures.

(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 or loss and other comprehensive income.

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 IFRS 9 are satisfied.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, 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 or loss and other comprehensive income. This category generally applies to loans and borrowings (Note 9).

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 or loss and other comprehensive income.

(iii) Interest income

For all financial instruments measured at amortised cost interest income is recorded using the 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 or loss and other comprehensive income.

(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, 2021, 2020 and 2019, 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 inventories 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 inventories costs include direct labor, supplies, depreciation of equipment and mining assets, and amortisation of licenses to use mineral reserves, mine operating overheads and other related costs. Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

The finished goods of mining, coke and steel entities which can be sold to third parties in its current condition are used as input raw materials for processing at the Group's entities.

(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 15.
- Property, plant and equipment – Note 14.
- Impairment of goodwill and other non-current assets – Note 16.

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 or group of entities with one component of business in each case.

In assessing value in use, the Group uses assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, production and 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. Discount rates used in the impairment test for goodwill and non-current assets are estimated in nominal terms on the weighted average cost of capital basis. 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 to sell, the Group uses recent market transactions data and best information available to reflect the amount that it could obtain from the disposal of the asset in an arm's length transaction (e.g., offers obtained from potential buyers).

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

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

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

For impaired assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. Previously impaired assets (excluding goodwill) are reviewed for possible reversal of previous impairment at each reporting date. Impairment reversal cannot exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognised for the asset or cash generating units (CGUs). Such reversal is recognised in the consolidated statement of profit or loss and other comprehensive income.

Goodwill is tested for impairment annually as of December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(r) Cash and cash equivalents

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

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

(s) Provisions

General

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

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

The Group has numerous site rehabilitation obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The main part of these obligations is not expected to be paid in a foreseeable future, and will be funded from the general Group's resources when respective works will be performed. The Group's rehabilitation provisions primarily relate to its steel and mining production facilities with related landfills and dump areas and its mines. Rehabilitation activities are generally undertaken at the end of the production life at the individual sites. Remaining production lives range from 1 year to 117 years with an average for all sites, weighted by current closure provision of approximately 13 years.

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* ("IAS 16").

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 or loss and other comprehensive income.

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 or loss and other comprehensive income as part of finance costs.

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

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 or loss and other comprehensive income, 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 yearend on highly rated long-term bonds.

For defined benefit pension plans, actuarial gains and losses arising from changes in actuarial assumptions are recognised directly in other comprehensive income. For other long-term benefits, actuarial gains and losses arising from changes in actuarial assumptions are recognised in profit or loss.

For unfunded plans, the Group recognises 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 recognises 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 companies are legally obligated to make defined contributions to the Russian Pension Fund at the rate of 10% from employee's annual income over RUB 1.5 million and at the rate of 22% from employee's annual income not exceeding RUB 1.5 million (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 and are recognised within social security costs (Note 23.2).

(u) Government grants

Government grants are recognised as deferred income within other liabilities where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as other operating income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Grants that compensate the acquisition of an asset are presented by deducting them from the acquisition cost of the related asset and are recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

(v) Treasury shares

Reacquired own equity instruments (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the additional paid-in capital.

(w) Significant accounting estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the amounts of revenues and expenses recognised during the reporting period. Estimates and assumptions are continually evaluated and are based on the Group's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

Critical accounting estimates

Deferred tax assets

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 18). Various factors are considered to assess the probability of the future utilization of deferred tax assets for individual subsidiaries and for the consolidated group of taxpayers, including past operating results, operational plans for not longer than five years as this term is considered reliable and accurate for forecast, same assumptions for operational plans as used for determination of the expected future cash flows from the cash generating, financial plans based on historical data and expectation built on the debt portfolio, terms of the expiration of tax losses carried forward depending on respective tax legislation, and tax planning strategies based on changes in tax regulation for tax losses offsetting for 2018-2024. The key assumptions used in the future projections of taxable profits include sales volumes, selling prices (coal, steel products) and operating costs. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the Group's financial position, results of operations and cash flows may be affected. In the event that the assessment of future utilization of deferred tax assets must be changed, this effect is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, changes in cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. The key assumptions used in the future cash flow projections include sales volumes, selling prices (coal, steel products) and operating costs. 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 and growth 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 16).

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 including assumptions related to sales and extraction volumes, selling prices 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 16.

Other accounting estimates and assumptions

Uncertain income tax positions

The Group determines whether to consider each uncertain income tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments, and where uncertainty exists, the Group records tax liabilities based on its best estimate of the probable outflow of resources embodying economic benefits, which are required to settle these liabilities.

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. 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 amortisation charge proportional to the depletion. 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 can be updated which can have a material impact on the amortisation charge proportional to the depletion for the period. More details are provided in Note 3 (i).

Provisions

The outcomes of various legal proceedings, disputes and claims to the Group 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 21).

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. The discount rate is the most sensitive to a change assumption. In determining the appropriate discount rate, management considers the yield curve of the Russian government bonds together with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. More details are provided in Note 20.

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. The Group applies a suitable discount rate in order to calculate the present value of the estimated future costs, depending on their timing. The terms of rehabilitation works are linked to the termination of extraction phase, use of assets or regulatory requirements and vary significantly for different assets. Estimates can also be impacted by the emergence of new rehabilitation techniques, changes in regulatory requirements for rehabilitation, and experience at other operations. These uncertainties may result in future actual expenditure differing from the amounts currently provided for in the consolidated statement of financial position. These estimates, including the methodologies used, may have a material impact on the amount of rehabilitation provision. 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 (Note 14).

Impairment of financial assets

The Group makes allowances for expected credit losses resulting from the expected inability of customers to make required payments. When evaluating the adequacy of an allowance for expected credit losses management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, debtor creditworthiness and changes in payment terms. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future (Note 11).

Determining net realisable 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 realisable value (Note 10). Estimates of net realisable 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.

Provision for legal claims

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

Interest rate implicit in the lease

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 amounts recognised in the consolidated financial statements.

Principal vs agent arrangements

Revenue is recognised when a customer obtains control over the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The Group is engaged into contracts which include transportation and freight services. Under certain agreements, the Group is responsible for providing shipping services after the date at which control over the goods passes to the customer at the loading port or place. Freight and transportation services are required to be accounted for as separate performance obligations with revenue recognised over time as the service is rendered. The Group has concluded that it acts as a principal when it is primarily responsible for fulfilling the promise to provide transportation services and as an agent when it is not primarily responsible for fulfilling the promise to provide transportation services. As a result, for operations when the Group acts as a principal the amounts of transportation costs and freight services, which are included in the transaction price and incurred by the Group in fulfilling its performance obligations shall be recorded as revenue and recognised over time as the obligation is fulfilled. For agent services related to transportation of goods sold, when cost of transportation is included into the goods price, the revenue and selling expenses are recognised on a net basis.

Leases

The likelihood of extension and termination options being exercised, the separation and estimation of non-lease components of payments, the identification and valuation of in-substance fixed payments, the determination of the incremental borrowing rate relevant in calculating lease liabilities are assessed for recognition of right-of-use assets and lease liabilities.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The renewable lease contracts that specify an initial period, and renew indefinitely at the end of the initial period unless terminated by either of the parties to the contract are considered enforceable beyond the date on which the contract can be terminated taking into account the broader economics of the contract, and not only contractual termination payments. Lease terms are determined based on the contract terms, production need to lease the specialised asset and terms of rehabilitation obligations.

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 tax and custom authorities. Russian tax authorities take assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

In other tax jurisdictions where the Group conducts operations or holds shares, taxes are generally charged on their worldwide income. Between Russia and other countries agreements to avoid double taxation were signed; however, the risk of additional taxation exists, especially in respect of certain domiciles where some of the Group entities are located.The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties, including transactions performed with independent dealers, and certain types of cross-border transactions.

In order to support the level of prices applied for the "controlled" transactions the Group should provide evidence that prices of "controlled" transactions are based on market prices and to prepare the reports for submission to the Russian tax authorities. Otherwise, the Russian tax authorities have the right to challenge the prices determined by the Group for such transactions and to charge additional taxes, penalties and fines. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorised body in due course. Special transfer pricing rules apply to transactions with securities and derivatives.

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

In addition, in 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 recognised as a controlled foreign corporation. The foreign organization is recognised 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% (in some cases, more than 10%). Starting from the calculation of the profits of controlled foreign corporation for 2017 and beyond, the amount of non-taxable income of 10 million Russian rubles is established. The Russian tax law also provides for certain conditions under which the income of controlled corporations qualifies as tax exempt. The taxable income of the controlling party is increased by the profits of the controlled foreign corporation earned in the financial year ended prior to the reporting year.

Environmental contingencies

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

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

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

(x) Reclassifications and rounding

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 or loss and other comprehensive income, consolidated statement of cash flows and notes to the consolidated financial statements and have no impact on net income or equity.

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

(y) New and amended standards and interpretations adopted by the Group

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amended standard became effective from January 1, 2021, but did not have any material impact on the consolidated financial statements of the Group:

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

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

These amendments had no impact on the consolidated financial statements of the Group. In February 2022, the Group has fully repaid the U.S. dollar-denominated credit facility bearing interest at LIBOR (Note 26). The Group intends to use the practical expedients in future periods if they become applicable.

Standards issued but not effective

The standards and interpretations applicable to the Group that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are discussed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective. The Group expects no material impact on its consolidated financial statements from the following amendments and improvements applicable to the Group but they may impact future periods should the Group enter into new relevant transactions (e.g., business combinations):

- Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current – Deferral of Effective Date* (issued on January 23, 2020 and July 15, 2020 respectively) – 2 The IASB has published a new exposure draft on the topic on November 19, 2021.
- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting policies* (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023).
- Amendments to IAS 8 – *Definition of Accounting Estimates* (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023).
- Amendments to IAS 12 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (issued on May 7, 2021 and effective for annual reporting periods beginning on or after January 1, 2023).
- Amendments to IAS 16 – *Property, Plant and Equipment: Proceeds before Intended Use* (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Amendments to IAS 37 – *Onerous Contracts – Costs of Fulfilling a Contract* (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Amendments to IFRS 3 – *Reference to the Conceptual Framework* (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).
- Amendments to IFRS 16 – *COVID-19-Related Rent Concessions* beyond June 30, 2021 (issued on March 31, 2021 and effective for annual reporting periods beginning on or after April 1, 2021).
- Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 9 – *Fees in the '10 per cent' test for derecognition of financial liabilities* (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).

4. Going concern

These consolidated financial statements have been prepared assuming that the Group will continue as a going concern. Accordingly, these 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.

As of December 31, 2021, the Group's total liabilities exceeded total assets by RUB 147,278 million and current liabilities exceeded current assets by RUB 248,502 million. As of December 31, 2021, the Group was not in compliance with the payment schedules under certain credit facilities of foreign banks and lenders and a number of financial and non-financial covenants contained in the Group's loan agreements as further described in Note 9.1. These breaches constitute an event of default and, as a result, the lenders may request accelerated repayment of a substantial portion of the Group's debt including repayment requests on overdue principal and interest from foreign banks. As of December 31, 2021, the Group's debt payable on demand was RUB 281,379 million, including RUB 216,033 million of long-term loans and borrowings classified as short-term loans and borrowings due to contractual cross-default provisions and breaches of financial and non-financial covenants. As of the date of approval of these consolidated financial statements, the Group did not have sufficient own resources to enable it to comply with such repayment requests. The above conditions raise substantial doubt about the Group's ability to continue as a going concern. No requests demanding early repayment of debt due to violation of restrictive covenants from creditors were received by the Group as of the date of approval of these consolidated financial statements. The Group's primary objective of capital management is to focus on managing debt through a restructuring of the remaining non-restructured portion of loan portfolio and bringing down cost of financing as well as use of all available free cash flow for repayment of debt and fulfilment of payment schedules under the restructured facilities. Since restructuring in 2020, the Group has been in compliance with the agreed payment schedules with the Russian state-controlled banks. The restructuring of credit portfolio with foreign banks and lenders was not finalized in 2021, therefore, the Group continues to negotiate debt restructuring options and expects to agree on settlement terms in 2022.

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

The circumstances mentioned above, steel and mining market volatility, significant increase in volatility on the securities and currency markets, and risks and uncertainties growing due to geopolitical tensions indicate the existence of a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. There was no negative effect on operations of the Group due to COVID-19 and there were significant signs of recovery in terms of demand and prices level that positively affected current year results. However, as discussed in Note 26, macroeconomic uncertainty and instability have arisen due to worsening geopolitical situation and economic sanctions and it is not clear therefore if or when any debt restructuring will occur. The existing economic environment and economic conditions in the major segments of the Group's operations further increase uncertainty about the level of demand for the Group's products, operating and financial results, the availability of free cash flow for repayment or ability to refinance and restructure current liabilities.

Management expects that prices for the products of the Group's segments will allow the Group to focus on planned enhancement of crude steel production, diversification of product range and focus on sales within the CIS and Asia to quickly respond to economic changes, and to ensure the Group will continue as a going concern.

5. 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, 2021	At December 31, 2020
SKCC and subsidiaries (Hereinafter SKCC and subsidiaries are represented by Southern Kuzbass Coal Company (SKCC), Tomusinsky Open Pit Mine (TOPM), Tomusinsky Energoupravlenie)	0.9%	0.9%
Kuzbass Power Sales Company (KPSC)	27.9%	27.9%
Chelyabinsk Metallurgical Plant (CMP) (Note 22)	6.3%	6.3%
Beloretsk Metallurgical Plant (BMP)	8.6%	8.6%
Korshunov Mining Plant (KMP)	10.0%	10.0%
Urals Stampings Plant (USP) (Note 22)	10.0%	10.0%
Izhstal	10.0%	10.0%

The summarised financial information for these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statements of profit or loss and other comprehensive income for 2021:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers	42,820	24,929	176,778	35,436	15,210	15,011	27,785
Cost of sales	(19,073)	(12,026)	(147,952)	(28,231)	(7,016)	(12,657)	(22,719)
Total selling, distribution and operating expenses, net	(8,702)	(11,788)	(18,236)	(3,539)	(4,356)	(1,375)	(2,553)
Total other income and (expense), net	(1,350)	281	(1,788)	4	1,912	1,359	(41)
Profit before tax	**13,695**	**1,396**	**8,802**	**3,670**	**5,750**	**2,338**	**2,472**
Income tax (expense) benefit	(942)	(273)	(2,250)	(338)	(836)	(247)	46
Profit for the period	**12,753**	**1,123**	**6,552**	**3,332**	**4,914**	**2,091**	**2,518**
Total comprehensive income	**12,753**	**1,123**	**6,552**	**3,332**	**4,914**	**2,091**	**2,518**
Attributable to non-controlling interests	138	313	416	285	489	209	252

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

Summarised statements of profit or loss and other comprehensive income for 2020:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers	26,664	24,002	114,092	21,673	12,937	10,219	16,755
Cost of sales	(21,521)	(11,546)	(95,461)	(18,860)	(6,494)	(8,196)	(15,429)
Total selling, distribution and operating expenses, net	(16,303)	(11,255)	(12,485)	(2,123)	(4,360)	(1,240)	(1,803)
Total other income and (expense), net	(16,021)	251	(5,021)	278	1,417	1,837	(978)
(Loss) profit before tax	**(27,181)**	**1,452**	**1,125**	**968**	**3,500**	**2,620**	**(1,455)**
Income tax benefit (expense)	938	(302)	(373)	(111)	(182)	81	(255)
(Loss) profit for the period	**(26,243)**	**1,150**	**752**	**857**	**3,318**	**2,701**	**(1,710)**
Total comprehensive (loss) income	**(26,243)**	**1,150**	**752**	**857**	**3,318**	**2,701**	**(1,710)**
Attributable to non-controlling interests	(212)	320	76	73	330	215	(173)

Summarised statements of profit or loss and other comprehensive income for 2019:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers	35,059	24,624	113,020	22,061	15,776	17,231	20,208
Cost of sales	(21,667)	(12,479)	(101,258)	(19,263)	(6,739)	(12,330)	(17,631)
Total selling, distribution and operating expenses, net	(7,264)	(11,531)	(11,406)	(1,749)	(4,439)	(1,157)	919
Total other income and (expense), net	(233)	209	4,173	41	1,831	1,633	(99)
Profit before tax	**5,895**	**823**	**4,529**	**1,090**	**6,429**	**5,377**	**3,397**
Income tax (expense) benefit	(372)	(174)	(551)	(28)	(271)	(323)	97
Profit for the period	**5,523**	**649**	**3,978**	**1,062**	**6,158**	**5,054**	**3,494**
Total comprehensive income	**5,523**	**649**	**3,978**	**1,062**	**6,158**	**5,054**	**3,494**
Attributable to non-controlling interests	79	182	231	91	613	315	348

Summarised statements of financial position as of December 31, 2021:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Current assets	35,037	5,686	136,471	19,695	17,702	14,682	9,016
Non-current assets	44,136	4,934	117,228	5,252	33,309	25,341	3,754
Current liabilities	(77,681)	(2,380)	(204,395)	(8,320)	(2,151)	(5,615)	(12,015)
Non-current liabilities	(19,821)	(179)	(5,787)	(225)	(767)	(211)	(4,259)
Total equity	**18,329**	**(8,061)**	**(43,517)**	**(16,402)**	**(48,093)**	**(34,197)**	**3,504**
Attributable to:							
Equity shareholders of Mechel PAO	18,532	(5,816)	(40,762)	(14,990)	(43,305)	(30,785)	3,160
Non-controlling interests	(203)	(2,245)	(2,755)	(1,412)	(4,788)	(3,412)	344

Summarised statements of financial position as of December 31, 2020:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Current assets	75,693	4,582	66,066	14,659	14,658	12,549	4,674
Non-current assets	50,065	4,960	220,598	5,022	32,797	23,754	3,811
Current liabilities	(88,813)	(2,452)	(222,009)	(6,201)	(3,346)	(4,028)	(12,873)
Non-current liabilities	(68,469)	(153)	(27,780)	(416)	(995)	(185)	(1,663)
Total equity	**31,524**	**(6,937)**	**(36,875)**	**(13,064)**	**(43,114)**	**(32,090)**	**6,051**
Attributable to:							
Equity shareholders of Mechel PAO	31,585	(5,006)	(34,534)	(11,938)	(38,822)	(28,889)	5,452
Non-controlling interests	(61)	(1,931)	(2,341)	(1,126)	(4,292)	(3,201)	599

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

Summarised cash flow information for the year ended December 31, 2021:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	12,070	801	4,970	1,341	963	1,869	(1,544)
Investing	24,147	(38)	38,196	(204)	(711)	(1,523)	(135)
Financing	(36,255)	(179)	(38,457)	(351)	(252)	(312)	1,713
(Decrease) increase in cash and cash equivalents, net	**(38)**	**584**	**4,709**	**786**	**–**	**34**	**34**

Summarised cash flow information for the year ended December 31, 2020:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	8,718	1,465	(1,446)	1,441	6,647	3,538	1,531
Investing	8,118	(749)	(30,413)	(1,407)	(6,409)	(3,497)	(72)
Financing	(16,903)	(696)	31,413	(344)	(238)	(235)	(1,487)
(Decrease) increase in cash and cash equivalents, net	**(67)**	**20**	**(446)**	**(310)**	**–**	**(194)**	**(28)**

Summarised cash flow information for the year ended December 31, 2019:

	SKCC and subsidiaries	KPSC	CMP	BMP	KMP	USP	Izhstal
Operating	12,043	243	10,898	(2,482)	2,867	1,375	2,839
Investing	(950)	(58)	(3,522)	2,685	(2,627)	(912)	(72)
Financing	(10,945)	(245)	(7,108)	505	(240)	(199)	(2,741)
Increase (decrease) in cash and cash equivalents, net	**148**	**(60)**	**268**	**708**	**–**	**264**	**26**

6. Investments in associates

Investments in associates comprised of:

	Percent of shares held at		**Investment carrying value at**	
Investee	**December 31, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
TPTU (Mining segment)	40%	40%	214	219
TRMZ (Mining segment)	25%	25%	120	122
Total investments in associates			**334**	**341**

TPTU (Tomusinskiy Transportation Management Center) shares are owned by SKCC. The core business is provision of transportation services. TRMZ (Tomusinskiy Auto Repair Shop) shares are owned by SKCC. TRMZ provides repair services.

The following table shows movements in the investments in associates:

	TPTU (Mining segment)	**TRMZ (Mining segment)**	**Total**
January 1, 2019	**189**	**104**	**293**
Share of profit	19	9	**28**
December 31, 2019	**208**	**113**	**321**
Share of profit	11	9	**20**
December 31, 2020	**219**	**122**	**341**
Share of loss	(5)	(2)	**(7)**
December 31, 2021	**214**	**120**	**334**

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

7. 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 2021, 2020 and 2019.

	2021			2020			2019		
	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)	Purchases	Sales	Other loss (income)
Associates	65	57	–	104	62	–	110	98	–
Controlling shareholders and entities under control of the Group's Controlling shareholders	1,763	342	(192)	1,451	336	142	904	184	138
Total	**1,828**	**399**	**(192)**	**1,555**	**398**	**142**	**1,014**	**282**	**138**

As of December 31, 2021 and 2020, the Group had the following balances in settlement with related parties:

	December 31, 2021		December 31, 2020	
	Financial and other assets	Financial liabilities to	Financial and other assets	Financial liabilities to
Associates	7	(11)	7	(20)
Controlling shareholders and entities under control of the Group's Controlling shareholders	3,081	(494)	140	(1,565)
Total	**3,088**	**(505)**	**147**	**(1,585)**

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

As of December 31, 2021 and 2020, the amounts of non-current financial assets fully covered by the allowance for expected credit losses included amounts receivable of RUB 24,391 million, respectively, assigned to the Group's related party with further repayment to the Group. In January 2020, the Group extended the terms of repayment through 2027.

As of December 31, 2021 and 2020, the amounts of financial liabilities included amounts the trade and other payables of RUB 214 million and RUB 1,088 million, respectively, and amounts of the current lease liabilities of RUB 55 million and RUB 76 million, respectively, and non-current lease liabilities of RUB 236 million and RUB 421 million, respectively.

As of December 31, 2021, the amount of financial and other assets included the amount of RUB 2,329 million of advances paid for the cargo handling services to a new related party, which are recorded within Other current assets. The Group previously had a service agreement to handle its cargo before a company under control of the Controlling shareholders acquired an ownership interest in the entity in December 2021.

Mechel PAO purchased 6,419,753 of its ordinary shares from the Controlling shareholders and entities under control of the Group's Controlling shareholders for RUB 517 million as a result of the buyback of the shares on September 29, 2020 (Note 22).

The outstanding cash balance in Coalmetbank, an entity under control of the Group's Controlling shareholders, was RUB 15,362 million and RUB 382 million as of December 31, 2021 and December 31, 2020, respectively.

In 2021, 2020 and 2019, the Group purchased energy and electricity from its related party in the amount of RUB 1,308 million, RUB 1,265 million and RUB 692 million, respectively.

(b) 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 or loss and other comprehensive income and consisted of the short-term employee benefits in the amount of RUB 637 million, RUB 602 million and RUB 592 million in the year ended December 31, 2021, 2020 and 2019, 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)

8. Fair value measurement

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

		December 31, 2021		December 31, 2020	
	Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost					
Floating rate loans and borrowings	3	279,688	279,564	308,657	284,427
Bonds	1	–	–	2,473	2,496
Fixed rate loans and borrowings	3	3,794	3,779	5,907	5,734
Other non-current financial liabilities (Note 9.5)	3	1,666	1,669	1,901	1,919
Total		**285,148**	**285,012**	**318,938**	**294,576**

The fair value of loans and borrowings was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest adjusted for risk premium at the reporting dates (Level 3).

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

As of December 31, 2021 and 2020, trade receivables of RUB 1,170 million and RUB 1,115 million arising from provisionally priced contracts were measured at fair value through profit or loss upon recognition (Level 2). The adjustments to the final price on provisionally priced contracts measured at fair value resulted in a net gain of RUB 609 million, net loss of RUB 420 million and net loss of RUB 815 million are recorded within revenue for the years ended December 31, 2021, 2020 and 2019, respectively.

9. Financial assets and financial liabilities

9.1 Financial liabilities: loans and borrowings

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

	December 31, 2021		December 31, 2020	
Short-term loans and borrowings and current portion of long-term loans and borrowings	Interest rate, %	Amounts outstanding	Interest rate, %	Amounts outstanding
In Russian rubles				
Russian state-controlled banks		–	5.8	2,653
In euro				
Other banks and financial institutions	1.8	47	1.7-1.8	171
Current portion of long-term loans and borrowings		283,335		312,012
Total		**283,382**		**314,836**

	December 31, 2021		December 31, 2020	
Long-term loans and borrowings	Interest rate, %	Amounts outstanding	Interest rate, %	Amounts outstanding
In Russian rubles				
Banks and financial institutions	1.0-10.0	147,924	1.0-6.9	159,998
Bonds issue		–	7.9-8.8	2,473
Corporate lenders	9.3	50	9.3	47
In U.S. dollars				
Banks and financial institutions	5.7-6.9	31,233	7.1-7.2	38,040
In euro				
Banks and financial institutions	0.3-5.7	104,228	0.3-5.7	113,655
Current portion of long-term loans and borrowings		(283,335)		(312,012)
Total		**100**		**2,201**

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

Aggregate scheduled maturities of the amounts outstanding as of December 31, 2021 were as follows:

Payable by	
On demand	281,379
2022 (current portion)	2,003
2023	16
2024	16
2025	16
2026	52
Total	**283,482**

(a) Credit facilities

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

The finance income in the amount of RUB 223 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the period ended December 31, 2021 as a result of this refinancing.

As of December 31, 2021, the Group had available RUB 4,159 million of undrawn credit facilities.

The weighted average interests rates were 7.5%, 7.9% and 5.9% for the ruble-, U.S. dollar- and euro-denominated credit facilities, respectively, for the year ended December 31, 2021.

(b) Bonds

During 2009-2011, Mechel PAO placed a number of issues of the 5,000,000 ruble-denominated bonds each in an aggregate principal amount of RUB 40,000 million. The bonds were fully repaid by the end of July 2021.

(c) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 99%-2 shares of Yakutugol, 95% + 3 shares of SKCC, 91.66% of shares of CMP, 50% + 2 shares of common shares of BMP, 50% + 2 shares of KMP, 87.5%+3 shares of Mechel Mining, 74% + 1 share of USP, 25% + 1 share of Izhstal, 25% + 1 share of Port Posiet, 25% of registered capital of BFP, 25% of registered capital of Port Temryuk.

As of December 31, 2021 and 2020, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 24,526 million and RUB 21,522 million, respectively. Carrying value of inventories pledged under the loan agreements amounted to RUB 2,678 million and RUB 2,253 million as of December 31, 2021 and 2020, respectively. Accounts receivable pledged as of December 31, 2021 and 2020 amounted to RUB 228 million and RUB 145 million, respectively.

(d) Covenants

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

The Group was required to comply with the following ratios under the most significant loan agreements with the Russian state-controlled banks as of December 31, 2021:

Restrictive covenants	**Requirement**	**Actual as of December 31, 2021**
Group's Net Debt to Adjusted EBITDA	Shall not exceed 6.0:1.0	2.47:1.0
Group's Total Debt to Adjusted EBITDA	Shall not exceed 6.0:1.0	2.50:1.0
Group's Adjusted EBITDA to Net Interest Expense	Shall not be less than 2.0:1.0	5.39:1.0
Group's Adjusted EBITDA to Consolidated Financial Expense	Shall not be less than 2.0:1.0	5.34:1.0
Group's Cash flow from operating activities to Adjusted EBITDA	Shall not be less than 0.80:1.0	0.62:1.0
Group's Adjusted EBITDA to Revenue	Shall not be less than 0.15:1.0	0.30:1.0

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

As of December 31, 2021, the Group was not in compliance with one financial and several non-financial covenants set by the loan agreements with the Russian state-controlled banks. Also, the Group was not in compliance with covenants contained in the loan agreements with foreign banks.

There was a default on payments of principal and interest in the amount of RUB 30,414 million and RUB 2,143 million as of December 31, 2021 and in the amount of RUB 30,835 million and RUB 2,000 million as of December 31, 2020, respectively, relating to the loan agreements with foreign banks. The fines and penalties on overdue amounts of RUB 4,330 million and RUB 3,477 million were recorded in loans and borrowings in the consolidated statement of financial position as of December 31, 2021 and 2020, respectively. The fines and penalties in the amount of RUB 947 million, RUB 1,080 million and RUB 733 million were recorded as finance costs in the consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2021, 2020 and 2019, respectively. The Group regularly receives notifications on defaults under the facility agreements with foreign banks, as well as reservation of rights letters and calls of guarantees. The long-term loans and borrowings of RUB 216,033 million was reclassified to short-term liabilities as of December 31, 2021 as a result of non-compliance with covenants and a default on payments of principal and interest.

9.2 Leases

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the years ended December 31, 2021, 2020 and 2019:

	Land	Buildings and constructions	Machinery and equipment	Transportation vehicles	Total
As of January 1, 2019	**–**	**–**	**643**	**9,469**	**10,112**
Adjustment on initial application of IFRS 16	1,932	681	73	12	**2,698**
Additions as a result of new leases and capitalized leasehold improvements	54	537	257	7,088	**7,936**
Depreciation charge	(72)	(138)	(204)	(2,587)	**(3,001)**
Effect of modification and changes of estimates in lease contracts	137	4	142	311	**594**
Impairment	(72)	–	(19)	(363)	**(454)**
Transfer to own property, plant and equipment	–	–	(114)	(1)	**(115)**
Exchange differences on translation of foreign operations	(1)	(23)	(15)	(3)	**(42)**
As of December 31, 2019	**1,978**	**1,061**	**763**	**13,926**	**17,728**
Additions as a result of new leases and capitalized leasehold improvements	41	70	163	1,804	**2,078**
Depreciation charge	(67)	(266)	(191)	(3,307)	**(3,831)**
Effect of modification and changes of estimates in lease contracts	(265)	153	5	(1,030)	**(1,137)**
Discontinued operations (Note 24)	(511)	(13)	–	(1,123)	**(1,647)**
Impairment	(16)	–	(81)	(303)	**(400)**
Transfer to own property, plant and equipment	–	–	(29)	(4)	**(33)**
Exchange differences on translation of foreign operations	5	46	25	6	**82**
As of December 31, 2020	**1,165**	**1,051**	**655**	**9,969**	**12,840**
Additions as a result of new leases and capitalized leasehold improvements	52	35	361	2,684	**3,132**
Depreciation charge	(52)	(224)	(204)	(2,896)	**(3,376)**
Effect of modification and changes of estimates in lease contracts	565	301	16	537	**1,419**
Impairment	(675)	–	(157)	(739)	**(1,571)**
Transfer to own property, plant and equipment	–	–	(5)	(11)	**(16)**
Exchange differences on translation of foreign operations	–	(8)	(7)	(1)	**(16)**
As of December 31, 2021	**1,055**	**1,155**	**659**	**9,543**	**12,412**

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

Set out below are the carrying amounts of lease liabilities and the movements during the years ended December 31, 2021, 2020 and 2019:

	2021	2020	2019
Lease liabilities as of January 1	**11,493**	**17,355**	**8,293**
Adjustment on initial application of IFRS 16	–	–	3,259
Additions as a result of new leases	2,321	573	7,372
Effect of modification and changes of estimates in lease contracts	1,344	(1,155)	608
Interest expense	854	1,088	1,409
Lease settlements	(4,537)	(5,031)	(3,488)
Discontinued operations (Note 24)	–	(1,448)	–
Exchange differences on translation of foreign operations	(63)	111	(98)
Lease liabilities as of December 31	**11,412**	**11,493**	**17,355**

The total cash outflow for leases during the years ended December 31, 2021 and 2020 was RUB 4,824 million and RUB 3,841 million, respectively. During 2020, the lease liabilities of RUB 1,490 million were settled through sale and leasing back of railway carriages.

The Group's lease contracts contain a number of restrictions, which include but are not limited to cross-default provisions. As of December 31, 2021 and 2020, the Group was not in compliance with certain covenants under a number of loan agreements and certain lease contracts. As a result, the related long-term lease liabilities of RUB 4,781 million and RUB 4,345 million were reclassified to short-term lease liabilities due to covenant violations as of December 31, 2021 and 2020, respectively.

In 2021, the Group has extended a contract for lease of railway carriages until March 2022 resulting in additions to right-of-use assets and lease liabilities in the amount of RUB 522 million. Additionally, the Group reassessed the lease liabilities related to agreements for land plots due to changes in future lease payments based on the revised cadastral value of land plots.

The Group has lease contracts that have not yet commenced as of December 31, 2021 with the future lease payments of RUB 1,837 million.

9.3 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 an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset which can increase the risk of losses. The Group has procedures with the objective of minimising 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, 2021, the Group was in breach of a number of financial and non-financial covenants contained in the Group's loan agreements which led to cross-defaults under other loan and lease agreements, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans.

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

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, 2021							
Loans and borrowings, including interest payable	282,289	2,013	17	17	16	52	**284,404**
Lease liabilities	6,708	1,846	892	663	557	9,556	**20,222**
Trade and other payables	15,283	17,355	–	–	–	–	**32,638**
Other financial liabilities	313	475	471	446	440	1,147	**3,292**

	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, 2020							
Loans and borrowings, including interest payable	311,673	4,333	2,109	18	18	66	**318,217**
Lease liabilities	6,329	2,521	1,299	672	475	8,187	**19,483**
Trade and other payables	27,226	13,125	–	–	–	–	**40,351**
Other financial liabilities	–	488	487	481	445	1,272	**3,173**

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 (Note 11)) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each subsidiary subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. The contractual credit period for sales of goods is about 30 days on average. No interest is charged on trade receivables.

An impairment analysis is performed at each reporting date on an individual basis for major customers. 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. Based on the results of impairment analysis the allowance for expected credit losses on receivables is recognised (Note 11).

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

	December 31, 2021	**December 31, 2020**
Restricted cash (excluding cash on hand)	205	284
Cash deposits (Note 13)	15,186	320
Trade and other receivables	24,667	16,442
Other financial assets	335	370
- Loans issued	*320*	*354*
- Bonds	*15*	*16*
Total	**40,393**	**17,416**

The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Restricted cash (excluding cash on hands) mostly relates to cash received as advances under the contracts with customers.

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

Foreign currency risk

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

The Group undertakes transactions denominated in foreign currencies and consequently is exposed to foreign currency risk. Approximately 24% of the Group's sales are denominated in U.S. dollars and 15% of the Group's sales are denominated in euro, 11% of the Group's borrowings are denominated in U.S. dollars and 37% 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 from sales of the Group denominated in U.S. dollars and euro is partly mitigated by foreign exchange (loss) gain from the Group's borrowings and purchases denominated in foreign currencies, mostly in euro and U.S. dollars.

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

Assets and liabilities denominated in U.S. dollars	**December 31, 2021**	**December 31, 2020**
Current assets	**256**	**215**
Trade and other receivables	194	74
Cash and cash equivalents	62	141
Current liabilities	**(32,823)**	**(40,342)**
Loans and borrowings	(31,233)	(38,041)
Trade and other payables	(1,590)	(2,301)

Assets and liabilities denominated in euro	**December 31, 2021**	**December 31, 2020**
Current assets	**417**	**555**
Trade and other receivables	361	470
Cash and cash equivalents	56	85
Non-current liabilities	**(26)**	**(2,173)**
Loans and borrowings	–	(2,084)
Lease liabilities	(26)	(89)
Current liabilities	**(104,842)**	**(113,510)**
Loans and borrowings	(103,672)	(110,359)
Trade and other payables	(1,074)	(3,025)
Lease liabilities	(96)	(126)

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 ((decrease)/ increase) on profit before tax**	**Change in Euro to Russian ruble exchange rate**	**Effect ((decrease)/ increase) on profit before tax**
2019	+13%	(5,860)	+13%	(11,540)
	-11%	4,958	-11%	9,765
2020	+16%	(6,420)	+16%	(18,420)
	-16%	6,420	-16%	18,420
2021	+15%	(4,885)	+15%	(15,668)
	-15%	4,885	-15%	15,668

(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 adversely impacts the financial results of the Group. As of December 31, 2021 and 2020, the share of the borrowings with floating rates in the total amount of the borrowings were 99% (incl. key rate of the Central Bank of the Russian Federation – 52%, LIBOR, EURIBOR – 47%) and 98% (incl. key rate of the Central Bank of the Russian Federation – 51%, LIBOR, EURIBOR – 47%), respectively.

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

	Increase/ decrease in the key rate of the Central Bank of Russian Federation (in percentage points)	Effect ((decrease)/ increase) on profit before tax	Increase/ decrease in LIBOR (in percentage points)	Effect ((decrease)/ increase) on profit before tax	Increase/ decrease in EURIBOR (in percentage points)	Effect ((decrease)/ increase) on profit before tax
2019	+1.25	(3,116)	+0.35	(145)	+0.15	(126)
	-1.25	3,116	-0.35	145	-0.15	126
2020	+1.50	(2,387)	+1.00	(361)	+0.20	(225)
	-1.00	1,592	-0.25	90	-0.20	225
2021	+3.00	(4,417)	+1.25	(390)	+0.20	(207)
	-3.00	4,417	-0.25	78	-0.20	207

9.4 Other current financial assets

In November 2011, the Group entered into a loan agreement of $944,530 thousand (RUB 28,433 million at exchange rate as of November 10, 2011) matured September 30, 2012, secured by the assets of third party metallurgical plants. As of December 31, 2021 and 2020, the overdue loan remaining after partial writte off due to liquidation of certain debtors was fully provided for in the amount of RUB 7,992 million and RUB 7,992 million, respectively, as the fair value of the pledged assets was nil, as these entities are in the bankruptcy procedure and/or burdened with substantial amount of debt.

9.5 Other current and non-current financial liabilities

The other current and non-current financial liabilities as of December 31, 2021 and 2020 are mostly presented by balances of sale and leaseback transactions.

The total amount including VAT of additional financing from sale and leaseback transactions was RUB 304 million and RUB 2,584 million during the years ended December 31, 2021 and 2020, respectively.

10. Inventories

	December 31, 2021	December 31, 2020
Raw materials	19,750	13,178
Work in progress	12,537	9,655
Finished goods and goods for resale	30,162	19,305
Total inventories at the lower of cost and net realisable value	**62,449**	**42,138**

During 2021, RUB 769 million (2020: RUB 796 million, 2019: RUB 1,628 million) was recognised as an expense within cost of sales for inventories carried at net realisable value. The amount of inventories recognised as an expense during the period was RUB 209,934 million for 2021 (2020: RUB 147,513 million, 2019: RUB 158,528 million).

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

11. Trade and other receivables

	December 31, 2021	December 31, 2020
Trade receivables, including from contracts with	30,020	21,675
- Domestic customers	*25,178*	*17,916*
- Foreign customers	*4,842*	*3,759*
Less allowance for expected credit losses on trade receivables	(6,271)	(5,984)
Total trade receivables	**23,749**	**15,691**
Other receivables	2,496	4,035
Less allowance for expected credit losses on other receivables	(2,062)	(3,511)
Total other receivables	**434**	**524**
Contract assets from contracts with domestic customers	132	188
Total accounts receivable	**24,315**	**16,403**

Trade receivables include trade receivables subject to provisional pricing measured at fair value through profit or loss (Note 8). Set out below is the information about the credit risk exposure on the Group's trade receivables (not subject to provisional pricing) by ageing as of December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Trade receivables	Expected credit losses	Trade receivables	Expected credit losses
Current	18,683	(186)	11,088	(253)
=<30 days	2,732	(231)	2,442	(103)
31-60 days	1,154	(195)	590	(129)
61-90 days	452	(275)	430	(121)
91-180 days	712	(457)	385	(88)
181-365 days	396	(244)	547	(175)
>1 year	4,853	(4,683)	5,266	(5,115)
Total trade receivables	**28,982**	**(6,271)**	**20,748**	**(5,984)**

The Group does not provide any collateral over these balances.

The movements in the allowance for expected credit losses on trade and other receivables were as follows:

	Total
At January 1, 2019	**9,837**
Charge	226
Utilised amounts	(800)
Exchange rate difference	(408)
At December 31, 2019	**8,855**
Charge	177
Utilised amounts	(653)
Discontinued operations	(2)
Exchange rate difference	1,118
At December 31, 2020	**9,495**
Charge	189
Utilised amounts	(1,192)
Exchange rate difference	(159)
At December 31, 2021	**8,333**

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

12. Other current and non-current assets

	December 31, 2021	December 31, 2020
Other current assets		
Prepayments and advances	4,757	4,428
Input, recoverable and deferred VAT and other taxes recoverable	5,492	3,875
Other current assets	99	120
Total prepayments and other current assets	**10,348**	**8,423**

	December 31, 2021	December 31, 2020
Other non-current assets		
Deferred assets from sale and lease back	145	176
Other non-current assets	48	50
Total other non-current assets	**193**	**226**

13. Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash on hand	6	5
Cash at banks, including:		
- In Russian rubles	*16,125*	*849*
- In U.S. dollars	*802*	*358*
- In euro	*667*	*415*
- In other currencies	*187*	*144*
Total cash and cash equivalents	**17,787**	**1,771**
Less allowance for expected credit losses	(86)	(65)
Total cash and cash equivalents, net	**17,701**	**1,706**

For the purpose of the consolidated statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 0 million and RUB 2,644 million as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Group had short-term deposits included in cash at banks of RUB 15,186 million and RUB 320 million, respectively.

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

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

	Loans and borrowings	Lease liabilities	Fines and penalties on overdue leases	Deferred payments for acquisition of assets	Sale and leaseback transactions	Put option of Gazprom-bank	Dividends payable
At January 1, 2019	**418,832**	**8,293**	**384**	**1,430**	**–**	**44,056**	**232**
Cash flows	(42,831)	(3,488)	(39)	(341)	234	–	(1,531)
Foreign exchange movement	(19,070)	(76)	(17)	–	–	–	–
New leases	–	11,234	–	–	–	–	–
Interest accrued	31,750	1,409	–	–	–	–	–
Effect of restructuring of loans and leases	(25)	–	(337)	–	–	–	–
Other changes	(134)	(17)	50	62	14	4,145	1,516
At December 31, 2019	**388,522**	**17,355**	**41**	**1,151**	**248**	**48,201**	**217**
Cash flows	(121,363)	(3,541)	–	(508)	278	–	(295)
Foreign exchange movement	36,419	160	–	–	–	–	–
Non-cash offset (Note 9.2)	–	(1,490)	–	–	1,490	–	–
Gain on sale of the discontinued operations	(8,031)	(1,448)	–	(443)	–	(49,418)	–
New leases	–	573	–	–	–	–	–
Interest accrued	22,281	1,088	–	–	–	–	–
Effect of restructuring of loans and leases	(3,204)	–	(137)	–	–	–	–
Other changes	2,413	(1,204)	96	(88)	183	1,217	88
At December 31, 2020	**317,037**	**11,493**	**–**	**112**	**2,199**	**–**	**10**
Cash flows	(44,203)	(4,537)	(35)	(95)	(354)	–	(111)
Foreign exchange movement	(8,081)	(39)	–	–	–	–	–
New leases	–	2,321	–	–	–	–	–
Interest accrued	20,063	854	–	–	–	–	–
Effect of restructuring of loans and leases	(223)	–	(22)	–	–	–	–
Other changes	(1,111)	1,320	59	(17)	281	–	110
At December 31, 2021	**283,482**	**11,412**	**2**	**–**	**2,126**	**–**	**9**

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

14. Property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Transportation vehicles	Other equipment	Construction-in-progress	Mining assets	Railway Ulak-Elga	Total
Cost									
At January 1, 2019	**2,941**	**80,751**	**121,328**	**31,760**	**1,172**	**21,888**	**16,908**	**75,202**	**351,950**
Transfer to right-of-use assets on initial application of IFRS 16	–	–	(1,745)	(14,557)	–	–	–	–	**(16,302)**
Additions	–	27	1,180	282	33	7,332	38	–	**8,892**
Change in rehabilitation provision	–	456	–	–	–	–	707	–	**1,163**
Transfers	(9)	2,606	3,176	262	21	(6,752)	(26)	722	**–**
Transfer to own property, plant and equipment	–	–	752	95	–	–	–	–	**847**
Disposals	(24)	(240)	(2,400)	(2,045)	(33)	(990)	–	–	**(5,732)**
Exchange differences on translation of foreign operations	(84)	(263)	(223)	(29)	(30)	(2)	–	–	**(631)**
At December 31, 2019	**2,824**	**83,337**	**122,068**	**15,768**	**1,163**	**21,476**	**17,627**	**75,924**	**340,187**
Additions	–	26	1,332	413	41	5,442	9	–	**7,263**
Change in rehabilitation provision	–	30	–	–	–	–	170	–	**200**
Transfers	1	4,106	5,521	117	20	(9,772)	7	–	**–**
Transfer to own property, plant and equipment	–	–	57	5	–	–	–	–	**62**
Disposals	(47)	(377)	(1,981)	(954)	(35)	(449)	(974)	–	**(4,817)**
Discontinued operations (Note 24)	–	(11,804)	(4,887)	(2,379)	(153)	(9,044)	(5,783)	(75,924)	**(109,974)**
Exchange differences on translation of foreign operations	169	553	487	73	48	1	–	–	**1,331**
At December 31, 2020	**2,947**	**75,871**	**122,597**	**13,043**	**1,084**	**7,654**	**11,056**	**–**	**234,252**
Additions	–	20	1,129	324	32	4,433	11	–	**5,949**
Change in rehabilitation provision	–	(476)	–	–	–	–	(422)	–	**(898)**
Transfers	–	1,073	2,397	155	10	(4,063)	428	–	**–**
Transfer to own property, plant and equipment	–	–	85	15	–	–	–	–	**100**
Disposals	(118)	(414)	(3,247)	(2,180)	(23)	(452)	–	–	**(6,434)**
Exchange differences on translation of foreign operations	(47)	(161)	(144)	(22)	(11)	(1)	–	–	**(386)**
At December 31, 2021	**2,782**	**75,913**	**122,817**	**11,335**	**1,092**	**7,571**	**11,073**	**–**	**232,583**
Depreciation and impairment									
At January 1, 2019	**(115)**	**(43,967)**	**(87,808)**	**(19,411)**	**(885)**	**(2,222)**	**(6,575)**	**(1,088)**	**(162,071)**
Transfer to right-of-use assets on initial application of IFRS 16	–	–	1,102	5,088	–	–	–	–	**6,190**
Depreciation charge	–	(2,781)	(6,764)	(882)	(53)	–	(186)	(295)	**(10,961)**
Transfers	–	(19)	(103)	(43)	1	163	1	–	**–**
Transfer to own property, plant and equipment	–	–	(638)	(94)	–	–	–	–	**(732)**
Disposals	22	193	2,228	1,996	21	30	–	–	**4,490**
Reversal of impairment/ (impairment)	36	634	1,617	(9)	9	(473)	(19)	–	**1,795**
Exchange differences on translation of foreign operations	3	114	192	34	23	–	–	–	**366**
At December 31, 2019	**(54)**	**(45,826)**	**(90,174)**	**(13,321)**	**(884)**	**(2,502)**	**(6,779)**	**(1,383)**	**(160,923)**
Depreciation charge	–	(2,695)	(6,212)	(583)	(51)	–	(144)	(73)	**(9,758)**
Transfers	–	(399)	(537)	(30)	(2)	986	(18)	–	**–**
Transfer to own property, plant and equipment	–	–	(28)	(1)	–	–	–	–	**(29)**
Disposals	–	302	1,842	948	2	200	933	–	**4,227**
Discontinued operations (Note 24)	–	7,934	2,744	2,240	78	–	111	1,456	**14,563**
Impairment	–	(25)	(37)	–	–	(105)	(6)	–	**(173)**
Exchange differences on translation of foreign operations	–	(260)	(428)	(83)	(42)	–	(1)	–	**(814)**
At December 31, 2020	**(54)**	**(40,969)**	**(92,830)**	**(10,830)**	**(899)**	**(1,421)**	**(5,904)**	**–**	**(152,907)**
Depreciation charge	–	(2,214)	(5,733)	(486)	(48)	–	(122)	–	**(8,603)**
Transfers	–	(40)	(39)	–	(1)	80	–	–	**–**
Transfer to own property, plant and equipment	–	–	(80)	(4)	–	–	–	–	**(84)**
Disposals	29	300	2,963	2,108	22	178	–	–	**5,600**
(Impairment)/reversal of impairment	(10)	178	(870)	(56)	–	(582)	12	–	**(1,328)**
Exchange differences on translation of foreign operations	–	82	132	25	9	–	–	–	**248**
At December 31, 2021	**(35)**	**(42,663)**	**(96,457)**	**(9,243)**	**(917)**	**(1,745)**	**(6,014)**	**–**	**(157,074)**
Net book value									
At January 1, 2019	**2,826**	**36,784**	**33,520**	**12,349**	**287**	**19,666**	**10,333**	**74,114**	**189,879**
At December 31, 2019	**2,770**	**37,511**	**31,894**	**2,447**	**279**	**18,974**	**10,848**	**74,541**	**179,264**
At December 31, 2020	**2,893**	**34,902**	**29,767**	**2,213**	**185**	**6,233**	**5,152**	**–**	**81,345**
At December 31, 2021	**2,747**	**33,250**	**26,360**	**2,092**	**175**	**5,826**	**5,059**	**–**	**75,509**

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

As of December 31, 2021, 2020 and 2019, the Group performed an impairment analysis of property, plant and equipment (Note 16).

Assets under construction

As of December 31, 2021 and 2020, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 553 million and RUB 299 million, respectively.

Contractual commitments

As of December 31, 2021 and 2020, the total Group's contractual commitments to acquire property, plant and equipment excluding VAT amounted to RUB 14,607 million and RUB 9,300 million, respectively.

15. Mineral licenses, goodwill and other intangible assets

	Goodwill	Mineral licenses	Licenses and software	Other intangible assets
Cost				
At January 1, 2019	**32,968**	**55,618**	**605**	**1,133**
Additions	–	–	84	18
Disposals	–	–	(52)	(50)
Exchange differences on translation of foreign operations	(57)	–	(15)	2
At December 31, 2019	**32,911**	**55,618**	**622**	**1,103**
Additions	–	–	182	20
Disposals	–	(1,023)	(5)	(125)
Discontinued operations (Note 24)	–	(11,823)	–	(9)
Exchange differences on translation of foreign operations	90	–	32	30
At December 31, 2020	**33,001**	**42,772**	**831**	**1,019**
Additions	–	–	98	–
Disposals	–	–	(9)	(3)
Exchange differences on translation of foreign operations	3	–	(7)	2
At December 31, 2021	**33,004**	**42,772**	**913**	**1,018**
Amortisation and impairment				
At January 1, 2019	**(16,929)**	**(23,550)**	**(352)**	**(157)**
Impairment	(3,139)	(6)	–	–
Amortisation	–	(987)	(64)	(61)
Disposals	–	–	3	38
Exchange differences on translation of foreign operations	–	–	15	1
At December 31, 2019	**(20,068)**	**(24,543)**	**(398)**	**(179)**
Impairment	(3,324)	–	–	–
Amortisation	–	(921)	(94)	(46)
Disposals	–	1,023	–	68
Discontinued operations (Note 24)	–	127	–	2
Exchange differences on translation of foreign operations	–	–	(32)	(12)
At December 31, 2020	**(23,392)**	**(24,314)**	**(524)**	**(167)**
Amortisation	–	(717)	(138)	(43)
Disposals	–	–	2	3
Exchange differences on translation of foreign operations	–	–	7	–
At December 31, 2021	**(23,392)**	**(25,031)**	**(653)**	**(206)**
Net book value				
At January 1, 2019	**16,039**	**32,068**	**253**	**976**
At December 31, 2019	**12,843**	**31,075**	**224**	**924**
At December 31, 2020	**9,609**	**18,458**	**307**	**852**
At December 31, 2021	**9,612**	**17,741**	**260**	**812**

As of December 31, 2021, 2020 and 2019, the Group performed an impairment analysis of goodwill (Note 16).

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

16. Impairment of goodwill and other non-current assets

As of December 31, 2021 and 2020, the Group performed an impairment analysis of goodwill and other non-current assets at the level of cash generating units (CGU). 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, 2021**	**December 31, 2020**
Yakutugol	Mining	6,935	10,259
KPSC	Power	1,026	1,026
Port Posiet	Mining	756	756
CMP	Steel	683	679
SKCC	Mining	143	143
Port Temryuk	Mining	69	69
Total		**9,612**	**12,932**

As of December 31, 2021 and 2020, the recoverable amount of CGUs was determined based on value in use. Inflation and discount rates, range of discount rates, estimated for each year for the forecasted period, were as follows:

	Forecast period, years				
As of December 31, 2020	**2021**	**2022**	**2023**	**2024**	**2025**
Inflation rate in Russia	4.4%	3.7%	3.8%	3.8%	3.8%
Inflation rate in European countries	3.0%	2.9%	2.8%	2.8%	2.8%
Pre-tax discount rate, %	10.4%-17.1%	10.4%-17.1%	10.4%-17.1%	10.4%-17.1%	10.4%-17.1%
As of December 31, 2021	**2022**	**2023**	**2024**	**2025**	**2026**
Inflation rate in Russia	6.6%	3.5%	4.6%	4.2%	3.3%
Inflation rate in European countries	4.2%	2.8%	2.9%	2.9%	2.8%
Pre-tax discount rate, %	12.3%-23.2%	12.3%-23.2%	12.3%-23.2%	12.3%-23.2%	12.3%-23.2%

A long-term growth rate is calculated in the range 2.7%-3.9% and is applied to the projected future cash flows after the fifth year.

For the forecasted period from 2022 to 2026, the Group used the following key assumptions on prices for products sold in assessing the recoverable amount of the tested cash generating units:

Cash generating units	Segment	Product, measurement unit	Range of sales prices, FCA
CMP	Steel	Rails (Rub, thousand/tn)	34-40
CMP	Steel	Rebar (Rub, thousand/tn)	29-34
CMP	Steel	Billets (Rub, thousand/tn)	27-31
USP	Steel	Stampings (Rub, thousand/tn)	113-131
KMP	Mining	Iron ore (Rub, thousand/tn)	4.5-5.3
Yakutugol	Mining	Coking coal (Rub, thousand/tn)	4.3-6.2
Yakutugol	Mining	Steam coal (Rub, thousand/tn)	3.4-5.5
SKCC	Mining	Coking coal (Rub, thousand/tn)	5.7-7.8
SKCC	Mining	Anthracite (Rub, thousand/tn)	5.0-7.6
SKCC	Mining	Steam coal (Rub, thousand/tn)	2.3-4.2
BFP	Steel	Ferrosilicon (Rub, thousand/tn)	70-87
KPSC	Power	Electricity (Rub, thousand/kWh)	2.7-3.2

As of December 31, 2021, the Group performed the impairment testing for the following number of CGUs by segments: Steel – 3, Mining – 5 and Power – 2.

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

Impairment of goodwill

As a result of testing performed as of December 31, 2021, no impairment loss of goodwill was identified.

According to the identified indicators for impairment of goodwill, an impairment loss as of December 31, 2020 was recognised in the following CGU:

Cash generating units	Impairment loss on goodwill for the year ended December 31, 2020
Yakutugol	3,324
Total	**3,324**

Goodwill at Yakutugol was impaired in the amount of RUB 3,324 in 2020 due to coal prices decline in long-term forecast along with forthcoming depletion of Neryungrinsky Open Pit, decline in forecasted extraction and sales volumes in 2021-2022 with the shift to the next years as a consequence of market environment impacted by the COVID-19 pandemic. The remaining carrying value of goodwill was RUB 6,935 million.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2019 was recognised in the following CGU:

Cash generating units	Impairment loss on goodwill for the year ended December 31, 2019
Yakutugol	3,139
Total	**3,139**

Goodwill at Yakutugol was impaired in the amount of RUB 3,139 in 2019 due to coal prices decline in long-term forecast along with forthcoming depletion of Neryungrinsky Open Pit. The remaining carrying value of goodwill was RUB 10,259 million.

Impairment of non-current assets

According to the results of the impairment analysis, impairment loss of non-current assets was identified for the following CGUs as of December 31, 2021:

Cash generating units	Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2021
SKPP	2,152
KMP	1,391
Other	613
Total	**4,156**

The carrying value of property, plant and equipment and right-of-use assets at SKPP was written down to nil as of December 31, 2021 due to increased cost of raw materials used in the production in a long-term forecast and decreased production volumes.

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

In 2021, a federal law was adopted in Russia increasing significantly the mineral extraction tax rate in relation to iron ore, which is mined by KMP, starting 2022. The Group assessed this change in tax legislation as an indication of impairment of assets of KMP. As a result of the impairment test the estimated future cash flows of KMP were determined to be lower than the carrying amount of non-current assets at KMP and property, plant and equipment and right-of-use assets acquired in 2021 for the purpose to maintain production volumes in accordance with the license agreement obligations were written down to nil as of December 31, 2021.

As of December 31, 2021, the Group remeasured its lease liabilities related to certain agreements for land plots resulting in recognition of respective right-of-use assets and lease liabilities in the amount of RUB 613 million. The right-of-use assets for such contracts were impaired to nil as the future cash flows related to these right-of-use assets are negative due to the absence of production activity.

According to the results of the impairment analysis, a reversal of previously recognised impairment loss of non-current assets was recorded for the following CGU as of December 31, 2021:

Cash generating units	**Gain from reversal of previously recognised impairment loss on non-current assets at December 31, 2021**
BFP	1,257
Total	**1,257**

An impairment loss on non-current assets previously recognised at BFP was reversed in the amount of RUB 1,257 million mainly due to cumulative effect of increased ferrosilicon prices in mid-term as a result of strengethened demand upon the recovery of economy, and positive dynamics of forecasted U.S. dollar to Russian ruble exchange rate.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2020:

Cash generating units	**Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2020**
KMP	505
Other	68
Total	**573**

Estimated future cash flows remained negative at KMP therefore property, plant and equipment and right-of-use assets acquired in 2020 for the purpose to maintain production volumes in accordance with the license agreement obligations was written down to nil as of December 31, 2020.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2019:

Cash generating units	**Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2019**
BFP	727
KMP	549
Total	**1,276**

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

Impairment of non-current assets at BFP of RUB 727 million was recognised due to ferrosilicon prices decline in long-term forecast. The remaining carrying value of the property, plant and equipment, right-of-use assets and mineral licenses of BFP was RUB 702 million. Estimated future cash flows remained negative at KMP therefore property, plant and equipment and right-of-use assets acquired in 2019 for the purpose to maintain production volumes in accordance with the license agreement obligations was written down to nil as of December 31, 2019.

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, 2019:

Cash generating units	**Gain from reversal of previously recognised impairment loss on non-current assets at December 31, 2019**
Izhstal	2,611
Total	**2,611**

An impairment loss of non-current assets previously recognised at Izhstal was reversed of RUB 2,611 million due to decline in purchase prices for electrodes used as raw materials for steel production in a long-term forecast and decrease in pre-tax discount rate. The remaining carrying value of the property, plant and equipment and right-of-use assets of Izhstal was RUB 4,199 million.

Sensitivity analysis

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

Based on the sensitivity analysis carried out as of December 31, 2021, a 5% decrease in future planned revenues would trigger impairment of goodwill of RUB 2,376 million at Yakutugol.

Decrease in selling prices for ferrosilicon by 2.4%, or increase in discount rate by 3.2% would lead to reduction of gain from reversal of previously recognised impairment loss at BFP, decrease in selling prices for ferrosilicon by 4.6% would lead to absence of reversal of previously recognized impairment loss at BFP. The recoverable amount of BFP based on initial key assumptions exceeds the carrying amount after reversal of impairment by RUB 1,278 million.

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 of 2.8%, 3.4% and 2.0% at SKCC, Yakutugol and USP, respectively. The recoverable amounts of SKCC, Yakutugol and USP based on initial key assumptions exceed the carrying amounts by RUB 11,428 million, RUB 5,059 million and RUB 2,807 million, respectively.

Reasonably possible changes in other key assumptions used in assessing recoverable amount of CGUs as of December 31, 2021 do not lead to excess of carrying value over recoverable amount.

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

17. Trade and other payables

	December 31, 2021	December 31, 2020
Trade payables	29,058	32,290
Wages and salaries payable and other related obligations	3,641	3,378
Accounts payable for property, plant and equipment	1,851	3,650
Dividends payable, common shares	6	7
Dividends payable, preferred shares	3	3
Other payables	1,719	4,455
Total trade and other payables	**36,278**	**43,783**

18. Income tax

The major components of income tax expense for the years ended December 31, 2021, 2020 and 2019 are:

Recognised in profit or loss from continuing operations	2021	2020	2019
Current income tax			
Current income tax charge	(12,091)	(2,118)	(2,921)
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position	1,922	2,167	(2,718)
Deferred tax			
Relating to origination and reversal of temporary differences	3,658	(2,577)	(2,274)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**(6,511)**	**(2,528)**	**(7,913)**

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, 2021, 2020 and 2019. In 2014-2021, the consolidated group of taxpayers consisted of 20 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. Under the Federal law of the Russian Federation of August 3, 2018 No. 302-FZ, the Russian legislation introduced a limitation for registration by the tax authorities of agreements on the establishment of consolidated group of taxpayers, changes to contracts related to the accession of new members of such groups, withdrawal of participants, the extension of the agreement on the established consolidated group of taxpayers and termination of the consolidated group of taxpayers by January 1, 2023.

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.

During 2019-2021, income tax was calculated at 20% of taxable profit in Russia and Kazakhstan, at 25% in Austria, and at 32.1% in Germany. Amendments in the tax legislation of Switzerland resulted in the increase in tax rate from 10.5%-11% to 12.53% since January 1, 2020.

Starting 2018 up to the date of disposal (Note 24), Elgaugol used a privilege and applied a 0% income tax rate due to fulfillment of conditions of the Regional investment project.

Starting from 2021, BMP, participant of the consolidated group of taxpayers, began to apply an investment tax deduction, which will potentially lead to decrease in income tax in 2022-2027. Utilization of investment tax deductions resulted in a reduction of the current income tax by RUB 325 million in 2021.

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

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

	Notes	2021	2020	2019
Profit (loss) before tax from continuing operations		89,130	(37,625)	18,988
Loss before tax from discontinued operations	24	–	(3,953)	(6,716)
Accounting profit (loss) before tax		**89,130**	**(41,578)**	**12,272**
Income tax (expense) benefit at statutory income tax rate of 20%		**(17,826)**	**8,316**	**(2,454)**
Adjustments:				
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position		1,922	2,167	(2,718)
Change in unrecognized tax losses		10,680	(9,728)	(1,277)
Non-deductible expenses for tax purposes		(983)	(1,443)	(948)
Impairment of goodwill		–	(665)	(628)
Effect of restructuring and expense related to fines and penalties on reach of covenants in credit agreements		–	(16)	–
Effect of different tax rates		(298)	(1,172)	155
Change in tax rate		(6)	(5)	(117)
At the effective income tax rate of 7.3% ((6.1)% in 2020, 65.1% in 2019) income tax expense		**(6,511)**	**(2,546)**	**(7,987)**
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income from continuing operations		(6,511)	(2,528)	(7,913)
Income tax attributable to a discontinued operation	24	–	(18)	(74)
Total income tax expense		**(6,511)**	**(2,546)**	**(7,987)**

In 2021, The Group was able to utilise previously unrecognized tax losses due to significant tax profits generated by the consolidated group of taxpayers in the favorable market conditions.

Effect of different tax rates included the amount of RUB 642 million and RUB 49 million losses in 2020 and 2019, respectively, related to applying a privilege on income tax by Elgaugol up to date of disposal (Note 24).

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

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

	January 1, 2021	Tax (expense) benefit during the period recognised in profit or loss	Other	December 31, 2021
Deferred tax assets				
Property, plant, equipment and right-of-use assets	398	(244)	–	154
Rehabilitation provision	951	(269)	–	682
Inventories	1,630	1,763	–	3,393
Trade and other receivables	251	514	–	765
Loans and borrowings	18	240	–	258
Lease liabilities	1,533	(62)	(5)	1,466
Other financial liabilities	412	(44)	–	368
Trade and other payables and other liabilities	944	(167)	(1)	776
Accumulated tax losses carry-forwards	5,355	(944)	(6)	4,405
Other	365	12	(15)	362
Deferred tax liabilities				
Property, plant, equipment and right-of-use assets	(9,909)	467	25	(9,417)
Mineral licenses	(3,642)	97	–	(3,545)
Inventories	(952)	(85)	–	(1,037)
Trade and other receivables	(591)	85	(1)	(507)
Loans and borrowings	(2,645)	2,615	–	(30)
Trade and other payables and other liabilities	(330)	(320)	(2)	(652)
Deferred tax assets (liabilities), net	**(6,212)**	**3,658**	**(5)**	**(2,559)**

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

	January 1, 2020	Tax (expense) benefit during the period recognised in profit or loss	Disposals of subsidiaries	Other	December 31, 2020
Deferred tax assets					
Property, plant, equipment and right-of-use assets	686	(291)	–	3	398
Rehabilitation provision	1,068	71	(188)	–	951
Inventories	1,679	(41)	(13)	5	1,630
Trade and other receivables	519	(268)	–	–	251
Loans and borrowings	360	(342)	–	–	18
Lease liabilities	2,577	(881)	(181)	18	1,533
Other financial liabilities	–	412	–	–	412
Trade and other payables and other liabilities	529	426	(12)	1	944
Accumulated tax losses carry-forwards	10,403	(2,345)	(2,723)	20	5,355
Other	111	133	(11)	132	365
Deferred tax liabilities					
Property, plant, equipment and right-of-use assets	(17,805)	625	7,371	(100)	(9,909)
Mineral licenses	(6,141)	181	2,318	–	(3,642)
Inventories	(989)	42	–	(5)	(952)
Trade and other receivables	(774)	189	–	(6)	(591)
Loans and borrowings	(2,073)	(572)	–	–	(2,645)
Trade and other payables and other liabilities	(379)	87	6	(44)	(330)
Deferred tax assets (liabilities), net	**(10,229)**	**(2,574)**	**6,567**	**24**	**(6,212)**

	January 1, 2019	Adjustment on initial application of IFRS 16	January 1, 2019 adjusted for the effect of IFRS 16	Tax (expense) benefit during the period recognised in profit or loss	Other	December 31, 2019
Deferred tax assets						
Property, plant, equipment and right-of-use assets	386	(86)	300	386	–	686
Rehabilitation provision	773	–	773	295	–	1,068
Inventories	1,716	–	1,716	(36)	(1)	1,679
Trade and other receivables	790	–	790	(269)	(2)	519
Loans and borrowings	320	–	320	40	–	360
Lease liabilities	843	651	1,494	1,087	(4)	2,577
Trade and other payables and other liabilities	869	–	869	(340)	–	529
Accumulated tax losses carry-forwards	13,623	–	13,623	(3,210)	(10)	10,403
Other	74	–	74	40	(3)	111
Deferred tax liabilities						
Property, plant, equipment and right-of-use assets	(15,468)	(537)	(16,005)	(1,830)	30	(17,805)
Mineral licenses	(6,376)	–	(6,376)	235	–	(6,141)
Inventories	(834)	–	(834)	(160)	5	(989)
Trade and other receivables	(499)	–	(499)	(280)	5	(774)
Loans and borrowings	(3,898)	–	(3,898)	1,825	–	(2,073)
Trade and other payables and other liabilities	(337)	–	(337)	(71)	29	(379)
Deferred tax assets (liabilities), net	**(8,018)**	**28**	**(7,990)**	**(2,288)**	**49**	**(10,229)**

Recognised in the consolidated statement of financial position:

	December 31, 2021	December 31, 2020
Deferred tax assets	4,989	561
Deferred tax liabilities	(7,548)	(6,773)
Deferred tax liabilities, net	**(2,559)**	**(6,212)**

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

Reconciliation of deferred tax benefit (expense) during the period recognised in profit or loss is provided below:

Deferred tax (expense) benefit during the period	2021	2020	2019
Tax benefit (expense) attributable to continuing operation	3,658	(2,577)	(2,274)
Tax benefit (expense) attributable to discontinued operation	–	3	(14)
Tax benefit (expense) during the period recognised in profit or loss	**3,658**	**(2,574)**	**(2,288)**

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 consolidated financial reporting purposes, the Group has not recognised deferred tax assets in the amount of RUB 28,312 million (as of December 31, 2020: RUB 38,153 million) on losses in the amount of RUB 139,987 million (as of December 31, 2020: RUB 191,411 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 utilisation of such assets. Deferred tax assets on net operating loss carry forwards which are considered to be realisable in the future, are mostly related to the Russian subsidiaries. The calculated future taxable profit is sensitive to operational results.

A deferred tax liability of approximately RUB 639 million and RUB 566 million as of December 31, 2021 and 2020, 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 approximately RUB 93 million and RUB 72 million as of December 31, 2021 and 2020, respectively, has not been recognised for temporary difference related to unremitted earnings of consolidated domestic subsidiaries as management believes the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

Probable income tax risks of RUB 4,601 million and RUB 6,575 million as of December 31, 2021 and 2020, respectively, have been recorded in the Group's consolidated financial statements. Due to changes in the Russian tax legislation effective from January 2017, calculation of the consolidated tax base of the consolidated group of taxpayers and the way to utilise current losses and losses received in the previous tax periods (before January 2017) were changed. Due to the absence of official explanations of the regulatory authorities concerning changes, there is an uncertainty in the interpretation. The Group does not believe that any other material income tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2021.

Possible income tax risks of RUB 1,935 million and RUB 862 million as of December 31, 2021 and 2020, respectively, have not been recognised in the Group's consolidated financial statements. Indemnity in the amount of RUB 1.9 billion was included in the purchase and sale agreement related to the Elga coal complex (Note 24) to address different interpretations of the tax law and regulations existed before the disposal date assessed by the management as possible for the income tax and other taxes risk.

19. Taxes and similar charges payable other than income tax

	December 31, 2021	December 31, 2020
VAT payable	7,252	4,705
Payroll taxes	1,948	4,180
Property tax	207	614
Mineral extraction tax	170	280
Land tax	123	323
Land lease	87	591
Other	179	276
Total	**9,966**	**10,969**

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

20. Pensions and other post-employment and long-term benefit plans

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

A number of the Group's companies provide their former employees with non-state retirement pensions, which are conditional on the member qualifying for the state old age pension. Some employees are also eligible for an early retirement in accordance with the state pension regulations. Specific coal industry rules also provide for certain benefits upon reaching retirement age. Additionally, the Group voluntarily provides financial support, of a defined benefit nature, to its old age and disabled pensioners, who did not acquire any pension under the non-state pension plans.

The Group provides several types of long-term employee benefits such as death-in-service benefit and invalidity pension of a defined benefit nature. The Group also provides former employees with reimbursement of fuel and energy resources, coal 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. Most of the pension plans are unfunded until the qualifying event occurs.

As of December 31, 2021, there were 42,134 active participants under the defined benefit pension plans and 36,098 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2020 and December 31, 2019, the related figures were 43,801 and 47,288 of active participants under the defined benefit pension plans and 37,640 and 37,814 pensioners receiving monthly pensions or other regular financial support from these plans, respectively. The majority of employees at the Group's major subsidiaries belong to the trade unions.

Actuarial valuation of pensions and other long-term benefits for the major subsidiaries was performed as of December 31, 2021. 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, 2021, pensions and other post-employment benefit obligations in the amount of RUB 3,914 million and other long-term benefit obligations in the amount of RUB 613 million (RUB 4,996 million and RUB 867 million as of December 31, 2020, respectively), were presented within Pension obligations in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2019 were as follows:

	Defined benefit obligations	Fair value of plan assets	Pension obligations
January 1, 2019	**(4,873)**	**282**	**(4,591)**
Current service cost	(210)	–	(210)
Net interest expense	(297)	4	(293)
Remeasurement of other long-term benefit obligations	(25)	–	(25)
Sub-total included in profit or loss	**(532)**	**4**	**(528)**
Benefit paid	**344**	**(7)**	**337**
Exchange difference	117	(16)	101
Actuarial changes arising from changes in demographic assumptions	(88)	–	(88)
Actuarial changes arising from changes in financial assumptions	(772)	–	(772)
Experience adjustments	(7)	–	(7)
Sub-total included in OCI	**(750)**	**(16)**	**(766)**
December 31, 2019	**(5,811)**	**263**	**(5,548)**

In 2019, the effect of actuarial changes arising from changes in financial assumptions is connected with the significant decrease in discount rate.

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

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2020 were as follows:

	Defined benefit obligations	Fair value of plan assets	Pension obligations
January 1, 2020	**(5,811)**	**263**	**(5,548)**
Current service cost	(220)	–	(220)
Net interest expense	(290)	2	(288)
Remeasurement of other long-term benefit obligations	54	–	54
Discontinued operations	186	–	186
Sub-total included in profit or loss	**(270)**	**2**	**(268)**
Benefit paid	**304**	**(14)**	**290**
Exchange difference	(457)	91	(366)
Actuarial changes arising from changes in financial assumptions	(22)	–	(22)
Experience adjustments	103	–	103
Discontinued operations	(52)	–	(52)
Sub-total included in OCI	**(428)**	**91**	**(337)**
December 31, 2020	**(6,205)**	**342**	**(5,863)**

Changes in the present value of the defined benefit obligations and fair value of plan assets for 2021 were as follows:

	Defined benefit obligations	Fair value of plan assets	Pension obligations
January 1, 2021	**(6,205)**	**342**	**(5,863)**
Current service cost	(219)	–	(219)
Net interest expense	(275)	2	(273)
Remeasurement of other long-term benefit obligations	259	–	259
Sub-total included in profit or loss	**(235)**	**2**	**(233)**
Benefit paid	**400**	**(19)**	**381**
Exchange difference	106	(4)	102
Actuarial changes arising from changes in demographic assumptions	382	–	382
Actuarial changes arising from changes in financial assumptions	547	–	547
Experience adjustments	157	–	157
Sub-total included in OCI	**1,192**	**(4)**	**1,188**
December 31, 2021	**(4,848)**	**321**	**(4,527)**

Deferred tax related to net loss from remeasurement of defined benefit plans amounted to RUB 103 million and RUB 119 million as of December 31, 2021 and 2020, respectively.

The plan asset allocation of the investment portfolio was as follows as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Debt instruments	176	184
Equity instruments	90	97
Property	25	17
Cash and cash equivalents	19	32
Other assets	11	12
Total plan assets	**321**	**342**

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

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

The Group's entities have a practice to provide lump-sum financial support to former employees and certain life-long benefits, so there is a risk of changes in the amount of expected pension obligations depending on the life expectancy. This risk is controlled by using most recent life expectancy tables. The risk of a significant fluctuation in interest rates is offset by actuarial best estimate assumptions in respect of discount rates. The Group does not identify the unusual, specific business plan or risk, as well as any significant risk concentrations. The Group performs sensitivity analysis calculating the whole defined benefit obligation in different actuarial assumptions and comparing the results. There are no changes from the previous period in the methods and set of assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation is around 9-11 years as of December 31, 2021 and 2020.

The key actuarial assumptions used to determine defined benefit obligations were as follows as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Discount rate		
Russian entities	8.40%	6.40%
German entities	1.06%	0.84%
Austrian entities	0.80%	0.50%
Inflation rates		
Russian entities	4.00%	3.90%
Rate of compensation increase		
Russian entities	5.00%	4.90%
German entities	4.00%	4.00%
Austrian entities	2.25%	2.25%

The results of sensitivity analysis of defined benefit obligations for the Russian entities as of December 31, 2021 and 2020 are presented below:

	2021	2020
Discount rate		
1% increase	(248)	(391)
1% decrease	286	465
Inflation rate		
1% increase	143	246
1% decrease	(123)	(227)
Rate of compensation increase		
1% increase	122	168
1% decrease	(110)	(160)
Turnover rate		
3% increase	(154)	(252)
3% decrease	157	265

The results of sensitivity analysis of defined benefit obligations for German entities as of December 31, 2021 and 2020 are presented below

	2021	2020
Discount rate		
1% increase	(110)	(124)
1% decrease	73	83

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

The results of sensitivity analysis of defined benefit obligations for Austrian entities as of December 31, 2021 and 2020 are presented below

	2021	2020
Discount rate		
1% increase	(65)	(96)
1% decrease	77	80

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

21. Provisions

	Rehabilitation provision	Provisions for legal claims	Provisions on taxes other than income tax, fines and penalties	Other provisions	Total
At January 1, 2021	**4,989**	**4,917**	**956**	**257**	**11,119**
Arising	–	963	583	496	**2,042**
Utilised	–	(2,463)	–	(193)	**(2,656)**
Revision in estimated cash flow and discount rate change	(963)	–	–	–	**(963)**
Unused amounts reversed	–	(648)	(629)	(55)	**(1,332)**
Unwinding of discount	328	–	–	18	**346**
Exchange differences	–	(5)	7	(16)	**(14)**
At December 31, 2021	**4,354**	**2,764**	**917**	**507**	**8,542**
Current	**312**	**2,764**	**917**	**431**	**4,424**
Non-current	**4,042**	**–**	**–**	**76**	**4,118**

Rehabilitation provision

The discount rate used in the calculation of the provision as of December 31, 2021 equaled 8.43% (as of December 31, 2020: 6.57%). A 0.5% decrease in the discount rates applied of December 31, 2021 would result in an increase to the closure and rehabilitation provision and increase in property, plant and equipment of RUB 240 million.

Provisions for legal claims

In 2020, a provision for the disputes over purchases was recognised in the amount of RUB 1,741 million due to negative court judgment. In 2021, the provision in the amount of RUB 1,732 million was utilized, as, in March 2021, the Group lost a legal case related to these litigations.

Legal claim contingency

As of December 31, 2021, management assesses the outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 1,623 million as possible based on the management's analysis and discussions with the legal advisers.

As of December 31, 2021, the Group as a defendant is involved in the court proceeding regarding the third party metallurgical plant's bankruptcy case. It is not practicable to estimate the potential effect of this claim and the timing of the payment, if any. The Group has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed for the Group. As of December 31, 2021, a number of Group's companies as a defendant is involved in the litigation in Cyprus initiated by the minority shareholder of the Group's subsidiary. Interim decision of the Cypriot Court imposed interim measures prohibiting to transfer assets of these Group's companies located in Cyprus in the amount up to EUR 80 million outside of Cyprus Republic and to deal with and alienate assets of these Group's companies in the amount up to EUR 80 million in other jurisdictions.

Provisions on taxes other than income tax

Management believes that the Group has paid or accrued all applicable taxes. The Group recorded RUB 917 million and RUB 956 million of other tax claims including fines and penalties that management believes are probable as of December 31, 2021 and 2020, respectively. The Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be materially misstated or misleading as of December 31, 2021.

Possible tax liabilities on other tax claims including fines and penalties, which were identified by management as those that can be subject to different interpretations of the tax law and regulations, are not accrued in the consolidated financial statements. The amount of such liabilities was RUB 267 million and RUB 468 million as of December 31, 2021 and 2020, respectively.

22. Issued capital and reserves

Common shares

Mechel PAO issued 416,270,745 common shares, each with a nominal value of 10 Russian rubles, all of which are fully paid for and outstanding under the Russian law, of which 11,494,619 were owned by Group's subsidiaries as of December 31, 2021 and 2020, respectively. Mechel PAO is authorised to issue additional 81,698,341 common shares with a nominal value of 10 Russian rubles each. In September 2020, the Group reacquired 10,804,058 common shares for RUB 870 million (RUB 80.57 per share). The repurchase price was declared by Mechel PAO's Board of Directors on June 4, 2020 for redemption by the shareholders that have the right to demand buyback of the shares in accordance with the Russian law. The repurchased shares were recognised as treasury shares within the consolidated statement of changes in equity at cost.

Preferred shares

As of December 31, 2021 and 2020, the Group had 138,756,915 preferred shares with a nominal value of 10 Russian rubles each, authorised and issued under the Russian law and representing 25% of the Mechel PAO's share capital, of which 83,963,279 shares were outstanding and fully paid for, and the remaining 54,793,636 shares were owned by one of the Group's subsidiaries. In December 2019, the Group sold 709,130 preferred shares for RUB 63 million. Under the Russian law and the Mechel PAO's Charter, these preferred shares are non-cumulative and have no voting rights, except for cases stipulated by the law and the Charter. 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, attributable to equity shareholders of Mechel PAO, divided by 138,756,915 issued preferred shares.

Distributions made and proposed

Mechel and its subsidiaries can distribute all profits as dividends or transfer them to reserves in accordance with applicable legislation and the charters. Dividends may only be declared from undistributed earnings as shown in the statutory financial statements of Russian subsidiaries. Dividends from Russian companies are generally subject to a 13% withholding tax for residents 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 (not less than 50%) interest in the share capital of the company (Russian or foreign) of the dividend payer for a period of at least 365 days and the residence of the dividend distribution foreign company is not included into the Ministry of Finance offshore list.

On December 16, 2021, the Group's subsidiary declared dividends attributable to non-controlling interests of RUB 19 million for 2020. On June 25, 2021, Mechel declared dividends to the holders of preferred shares for 2020 in the amount of RUB 162.3 million (RUB 1.17 per preferred share), including RUB 98.2 million dividends to the third party holders of preferred shares.

On June 30, 2020, Mechel declared dividends to the holders of preferred shares for 2019 in the amount of RUB 482.9 million (RUB 3.48 per preferred share), including RUB 292.2 million dividends to the third party holders of preferred shares.

On June 14, 2019, the Group's subsidiary declared dividends attributable to non-controlling interests of RUB 0.030 million for 2018. On June 28, 2019, Mechel declared dividends to the holders of preferred shares for 2018 in the amount of RUB 2,527 million (RUB 18.21 per preferred share), including RUB 1,516 million dividends to the third party holders of preferred shares.

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

Additional paid-in capital

In 2020, additional paid-in capital was decreased by RUB 1,024 million as a result of changes in non-controlling interest. The Group sold 3.76% and 0.79% interest in ownership in the Group's subsidiaries for the consideration of RUB 267 million and RUB 65 million, respectively. The carrying value of the sold shares was RUB 1,161 million and RUB 174 million, respectively. Also, the Group also acquired 0.23% interest in ownership in the Group's subsidiary for the consideration of RUB 20.9 million from third parties.

Earnings (loss) per share (EPS)

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

There were no dilutive securities issued as of December 31, 2021, 2020 and 2019.

The following table reflects the income and share data used in basic and diluted EPS calculations:

	2021	2020	2019
Earnings per share			
Weighted average number of common shares	404,776,126	412,589,910	416,256,510
Profit for the period attributable to Equity shareholders of Mechel PAO	80,570	808	2,409
Earnings per share (Russian rubles per share) attributable to common equity shareholders – basic and diluted	**199.05**	**1.96**	**5.79**
Profit (loss) for the period from continuing operations	82,619	(40,153)	11,075
Less attributable to non-controlling interests	2,049	648	1,876
Profit (loss) for the period attributable to Equity shareholders of Mechel PAO from continuing operations	80,570	(40,801)	9,199
Earnings (loss) per share from continuing operations (Russian rubles per share) – basic and diluted	**199.05**	**(98.89)**	**22.10**
Profit (loss) after tax for the period from discontinued operations	–	41,609	(6,790)
Earnings (loss) per share from discontinued operations (Russian rubles per share) – basic and diluted	**–**	**100.85**	**(16.31)**

The total weighted-average number of common shares outstanding during the period was as follows:

	Shares outstanding	Fraction of period (days)	Weighted-average number of shares
2019			
Common shares: January 1 – December 20	416,270,745	354	403,725,599
Common shares: December 20 – December 23	416,119,371	3	3,420,159
Common shares: December 23 – December 24	416,005,348	1	1,139,741
Common shares: December 24 – December 25	415,881,411	1	1,139,401
Common shares: December 25 – December 26	415,756,171	1	1,139,058
Common shares: December 26 – December 31	415,556,251	5	5,692,551
Common shares: December 31 – December 31	415,251,749	–	–
Total weighted average shares outstanding during the period		**365**	**416,256,510**
2020			
Common shares: January 1 – September 29	415,251,749	273	309,736,960
Common shares: September 29 – December 31	404,776,126	93	102,852,950
Total weighted average shares outstanding during the period		**366**	**412,589,910**
2021			
Common shares: January 1 – December 31	404,776,126	365	404,776,126
Total weighted average shares outstanding during the period		**365**	**404,776,126**

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

23. Other income/expenses

23.1 Administrative and other operating expenses

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

	2021	2020	2019
Wages, salaries and social security costs	10,343	9,856	8,771
Office and maintenance expenses	1,122	1,264	1,226
Audit and consulting services	625	527	546
Depreciation	614	708	721
Loss on write-off of non-current assets	606	454	979
Banking charges and services	550	335	328
Provision for legal claims, net	315	2,463	96
Consumables	244	269	294
Social expenses	238	188	288
Business trips	73	30	109
Expense relating to short-term leases (Note 9.2)	43	68	83
Write off of trade and other receivables	–	22	5
Other	1,740	2,253	2,122
Total	**16,513**	**18,437**	**15,568**

Loss on write-off of non-current assets is represented by the write-down of certain property, plant and equipment items as no future economic benefits are expected from the use or disposal.

23.2 Employee benefits expense

Employee benefits expenses are comprised of the following:

	2021	2020	2019
Included in cost of sales			
Wages and salaries	21,970	21,235	21,020
Social security costs	7,417	7,005	6,877
Post-employment benefits	219	209	182
Included in selling and distribution expenses			
Wages and salaries	4,146	3,864	3,566
Social security costs	1,098	1,055	968
Included in administrative and other operating expenses			
Wages and salaries	8,275	7,853	6,939
Social security costs	2,068	2,003	1,832
Total	**45,193**	**43,224**	**41,384**

23.3 Other operating income

Other operating income is comprised of the following:

	2021	2020	2019
Write-off of trade and other payables including payables with expired legal term	1,312	–	–
Curtailment and result of remeasurement of other long-term benefit obligations	314	62	25
Rental income	295	238	241
Net result from disposal of non-current assets	203	42	31
Subsidies received from the governmental authorities as a compensation for operating activities (energy tariffs)	177	121	–
Income from fines and penalties related to business contracts	–	119	157
Subsidies received from the governmental authorities to compensate losses of European group companies	–	82	–
Other	168	335	234
Total	**2,469**	**999**	**688**

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

23.4 Finance income and finance costs

Finance income is comprised of the following:

	2021	2020	2019
Effect of restructuring of loans and leases	245	3,341	353
Interest income on other financial assets	394	119	179
Income from the discounting of financial instruments	37	44	58
Total	**676**	**3,504**	**590**

Effect of restructuring of loans in 2021 and 2020 primarily relates to dollar-denominated and ruble and euro-denominated credit facilities, respectively, due to decrease of effective interest rates.

Finance costs are comprised of the following:

	2021	2020	2019
Interest on loans and borrowings	20,063	22,090	31,231
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	947	1,080	733
Interest expense on lease liabilities	854	1,047	1,217
Fines and penalties on overdue leases and trade payables	600	157	49
Total finance costs related to loans, borrowings and leases	**22,464**	**24,374**	**33,230**
Unwinding of discount on rehabilitation provision	328	291	304
Interest expenses under pension liabilities	273	286	284
Expenses related to discounting of financial instruments	306	194	45
Total	**23,371**	**25,145**	**33,863**

23.5 Other income and other expenses

Other income is comprised of the following:

	2021	2020	2019
Gain on disposal of a subsidiary	1,130	–	–
Gain on sales and purchases of foreign currencies	33	50	–
Reversal of unclaimed declared dividends to non-controlling interest upon expiration of limitation period	7	203	–
Write-off of trade and other payables with expired legal term	–	177	155
Other income	171	288	73
Total	**1,341**	**718**	**228**

The Group recorded gain from the disposal of overseas subsidiary in 2021. As of the date of disposal, assets, liabilities and other comprehensive loss recycled to the consolidated statements of profit or loss amounted to RUB 15 million, RUB 1,458 million and RUB 313 million, respectively.

Other expenses are comprised of the following:

	2021	2020	2019
Loss on sales and purchases of foreign currencies	–	–	148
Other non-operating expenses	66	259	335
Total	**66**	**259**	**483**

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

24. Discontinued operations

In January 2020, the Group entered into negotiations relating to the sale of Elgaugol OOO, ElgaDoroga OOO and Mecheltrans-Vostok OOO (collectively – "Elga coal complex") to a prospective buyer, a third party. On April 21, 2020, the Group received a consent required by the put option agreement (in June 2016, the put option agreement was signed granting put option to Gazprombank to sell the stake (in full or in part) in the Elga coal complex to the Group within three years following a five-year grace period or in case of a breach of conditions stipulated by such agreement. Gazprombank held 49% in the Elga coal complex; put option agreement allowed the Group to retain control over 100% of shares and therefore obligations under the put option was recognised as non-current financial liability) from Gazprombank permitting the sale of the 51% share of the Elga coal complex to the buyer. Since that date, the Elga coal complex was accounted for as a disposal group held for sale.

On April 21, 2020, the Group signed a sale and purchase agreement with the buyer for the sale of the Elga coal complex for the consideration of RUB 89 billion. From that date, the Group lost control over the Elga coal complex. The deal on disposal was completed on April 30, 2020 upon the legal transfer of ownership. This transaction resulted in a pre-tax gain of RUB 45,580 million.

	April 21, 2020
Consideration paid by the buyer	89,000
Derecognition of put option from Gazprombank	49,418
Net assets disposed of	(92,838)
Gain on sale of discontinued operations	**45,580**

The Elga coal complex represented one of the separate major lines of the Group's business that operated in Sakha Republic (Yakutia) in Far East and it was classified as a discontinued operation due to significant contribution to the Group's pretax loss, financing and investing cash flows.

As a result of the Elga coal complex being classified as discontinued operation, the comparative amounts for the year ended December 31, 2019 in these consolidated financial statements have been adjusted accordingly. The results of the Elga coal complex presented as discontinued operations in the consolidated statements of profit or loss and other comprehensive income were as follows where operations for 2020 represents operations for the period of January 1 – April 21, 2020:

	Year ended December 31,	
	2020	2019
Revenue	2,142	9,414
Expenses	(3,010)	(12,115)
Finance costs	(1,708)	(4,967)
Foreign exchange (loss) gain, net	(1,377)	952
Loss before tax from discontinued operations	**(3,953)**	**(6,716)**
Income tax expense	(18)	(74)
Loss after tax from discontinued operations	**(3,971)**	**(6,790)**
Gain on sale of discontinued operations	45,580	–
Income tax expense related to sale transaction	–	–
Net gain on sale of discontinued operations	45,580	–
Profit (loss) after tax for the period from discontinued operations	**41,609**	**(6,790)**

The sales of coking and steam coal to the third parties were included in the results of discontinued operations and coal used in production of coke and steel was included in the continuing operations. Finance costs from discontinued operations include remeasurement of non-current obligation related to put option of Gazprombank granted on non-controlling interests in the Elga coal complex in the amount of RUB 1,217 million and RUB 4,145 million for the years ended December 31, 2020 and 2019, respectively.

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

The major classes of assets and liabilities of the Elga coal complex classified as a disposal group as of the disposal date were as follows:

Assets	April 21, 2020
Non-current assets	
Property, plant and equipment	95,411
Right-of-use assets	1,647
Mineral licenses	11,696
Other non-current assets	7
Total non-current assets	**108,761**
Current assets	
Inventories	928
Income tax receivables	8
Other current assets	248
Trade and other receivables	3,060
Cash and cash equivalents	21
Total current assets	**4,265**
Total assets	**113,026**

Liabilities	April 21, 2020
Non-current liabilities	
Lease liabilities	565
Pension obligations	110
Provisions	940
Deferred tax liabilities	6,567
Total non-current liabilities	**8,182**
Current liabilities	
Loans and borrowings	8,031
Trade and other payables	1,930
Lease liabilities	883
Taxes and similar charges payable other than income tax	1,075
Advances received	2
Pension obligations	24
Provisions	61
Total current liabilities	**12,006**
Total liabilities	**20,188**
Net assets	**92,838**

Other non-current financial liabilities of RUB 49,418 million under the put option of Gazprombank were derecognised upon the Elga coal complex disposal.

The net cash flows from discontinued operations of the Elga coal complex were as follows where net cash flows for 2020 represents net cash flows for the period of January 1 – April 21, 2020:

	Year ended December 31,	
	2020	2019
Operating	1,102	2,668
Investing	(182)	(867)
Financing	(906)	(1,800)
Net cash inflow	**14**	**1**

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

25. Segment information

The Group's operations are presented in three operating 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 and ferrosilicon;
- Mining segment, comprising production and sales of coal (coking and steam) and middlings, coke and chemical products, and iron ore concentrate, which supplies raw materials to the Steel and Power segments and also sells substantial amounts of raw materials to third parties. The Elga coal complex included in mining segment was recognised as discontinued operation in 2020 (Note 24);
- 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.

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, operating profit (loss), assets and liabilities. Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Income tax, deferred tax related to the consolidated group of taxpayers and certain other assets and liabilities are not allocated to those segments as they are managed on the group basis.

As of December 31, 2021 and for the year then ended	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from contracts with external customers	110,791	262,500	28,783	–	**402,074**
Inter-segment revenue	54,182	5,926	16,636	(76,744)	**–**
Gross profit	103,191	62,529	14,022	(1,661)	**178,081**
Gross margin, %	62.6	23.3	30.9	–	**44.3**
Depreciation and amortisation	(6,574)	(6,314)	(469)	–	**(13,357)**
Impairment of goodwill and other non-current assets, net	(1,391)	644	(2,152)	–	**(2,899)**
Operating profit (loss)	67,999	37,447	(1,111)	(1,669)	**102,666**
Share of loss of associates, net	(7)	–	–	–	**(7)**
Finance income	524	150	2	–	**676**
Inter-segment finance income	2,037	478	34	(2,549)	**–**
Finance costs	(9,237)	(13,791)	(343)	–	**(23,371)**
Inter-segment finance costs	(396)	(1,950)	(203)	2,549	**–**
Income tax (expense) benefit	(2,782)	(4,798)	140	929	**(6,511)**
Profit (loss) for the period	58,643	26,138	(1,422)	(740)	**82,619**
Segment assets	90,610	136,352	7,870	2,698	**237,530**
Segment liabilities	133,059	239,782	7,117	4,850	**384,808**
Investments in associates	334	–	–	–	**334**

As of December 31, 2020 and for the year then ended	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from contracts with external customers	70,881	166,885	27,688	–	**265,454**
Inter-segment revenue	34,402	6,626	15,769	(56,797)	**–**
Gross profit	51,441	30,030	14,089	(711)	**94,849**
Gross margin, %	48.9	17.3	32.4	–	**35.7**
Depreciation and amortisation	(7,463)	(6,335)	(488)	–	**(14,286)**
Impairment of goodwill and other non-current assets, net	(3,829)	(67)	(1)	–	**(3,897)**
Operating profit (loss)	14,108	6,520	(308)	(395)	**19,925**
Share of profit of associates, net	20	–	–	–	**20**
Finance income	502	3,000	2	–	**3,504**
Inter-segment finance income	1,786	306	21	(2,113)	**–**
Finance costs	(12,209)	(12,678)	(258)	–	**(25,145)**
Inter-segment finance costs	(199)	(1,725)	(189)	2,113	**–**
Income tax benefit (expense)	149	(676)	34	(2,035)	**(2,528)**
Profit after tax for the period from discontinued operations	41,651	–	–	(42)	**41,609**
Profit (loss) for the period	38,854	(34,166)	(760)	(2,472)	**1,456**
Segment assets	83,178	102,759	8,875	(972)	**193,840**
Segment liabilities	160,866	250,356	11,188	2,101	**424,511**
Investments in associates	341	–	–	–	**341**

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

As of December 31, 2019 and for the year then ended	Mining	Steel	Power	Adjustments and eliminations	Consolidated
Revenue from contracts with external customers	83,517	174,850	28,786	–	**287,153**
Inter-segment revenue	37,710	6,068	15,541	(59,319)	**–**
Gross profit	63,680	27,486	13,058	(157)	**104,067**
Gross margin, %	52.5	15.2	29.5	–	**36.2**
Depreciation and amortisation	(6,774)	(6,153)	(482)	–	**(13,409)**
Impairment of goodwill and other non-current assets, net	(3,688)	1,884	–	–	**(1,804)**
Operating profit (loss)	26,775	7,087	1,416	(1,078)	**34,200**
Share of profit of associates, net	28	–	–	–	**28**
Finance income	514	75	1	–	**590**
Inter-segment finance income	386	375	30	(791)	**–**
Finance costs	(18,967)	(14,514)	(382)	–	**(33,863)**
Inter-segment finance costs	(195)	(325)	(271)	791	**–**
Income tax expense	(20)	(503)	(333)	(7,057)	**(7,913)**
(Loss) profit after tax for the period from discontinued operations	(6,962)	39	133	–	**(6,790)**
Profit (loss) for the period	4,955	6,934	531	(8,135)	**4,285**
Segment assets	202,423	100,493	7,610	1,979	**312,505**
Segment liabilities	300,058	233,279	9,432	3,333	**546,102**
Investments in associates	321	–	–	–	**321**

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

	2021	2020	2019
Domestic			
Russia	218,953	156,584	170,851
Other	49,778	28,491	28,469
Total	**268,731**	**185,075**	**199,320**
Export	133,343	80,379	87,833
Total revenue	**402,074**	**265,454**	**287,153**

The advances received represented contract liabilities to perform obligations under the contracts with customers. The revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was RUB 5,942 million, RUB 4,861 million and RUB 4,306 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

	2021	2020	2019
Russia	219,161	156,712	170,980
Asia	68,016	45,284	54,137
Europe, including Turkey	61,671	39,328	40,313
CIS	48,428	23,749	21,465
Other regions	4,798	381	258
Total	**402,074**	**265,454**	**287,153**

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

	December 31, 2021	December 31, 2020
Russia	103,095	109,954
Germany	1,283	1,446
Austria	725	820
Czech Republic	189	247
Other	370	176
Total	**105,662**	**112,643**

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

	2021	2020	2019
Mining segment			
Coal and middlings	71,043	54,324	62,518
Coke and chemical products	37,335	14,783	17,970
Iron ore concentrate	651	413	1,179
Other	1,762	1,361	1,850
Total	**110,791**	**70,881**	**83,517**
Steel segment			
Long steel products	149,515	98,908	97,692
Hardware	40,355	25,971	27,086
Flat steel products	36,828	23,056	23,371
Forgings and stampings	12,970	8,451	14,818
Ferrosilicon	7,418	3,159	3,229
Semi-finished steel products	6,361	181	137
Steel pipes	5,029	3,380	3,281
Other	4,024	3,779	5,236
Total	**262,500**	**166,885**	**174,850**
Power segment			
Electricity	27,143	26,306	27,030
Other	1,640	1,382	1,756
Total	**28,783**	**27,688**	**28,786**
Total revenue	**402,074**	**265,454**	**287,153**

26. Events after the reporting period

The Group evaluated subsequent events from December 31, 2021 through the date the consolidated financial statements were issued and concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements other than discussed below.

In February 2022, the Group repaid the U.S. dollar-denominated credit facility in the amount of $141 million, therefore the pledge of 25% + 1 ordinary shares of Mechel-Mining and 25% + 1 ordinary shares of BMP and the pledge of property, plant and equipment of the carrying amount of RUB 6,653 million were released.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the ruble against the U.S. dollar and the euro. It is expected that these events may affect the activities of the Russian companies in various sectors of the economy. The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Group's management is analysing the possible impact of changing micro- and macroeconomic conditions on the Group's financial position and results of operations.