UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended June 30, 2018

CONTENTS

Совершенствуя бизнес,
улучшаем мир

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of
Mechel PAO

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mechel PAO and its subsidiaries (the Group), which comprise the interim condensed consolidated statement of financial position as at June 30, 2018, the interim condensed consolidated statement of profit (loss) and other comprehensive income, interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months then ended, and explanatory notes (interim financial information).

Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Material uncertainty related to going concern

We draw attention to Note 4 to the interim condensed consolidated financial statements, which indicates that as of June 30, 2018 the Group has significant debt that it does not have the ability to repay without its refinancing or restructuring, and has not complied with certain covenants of its major loan agreements with banks. These events or conditions, along with other matters as set forth in Note 4 to the interim condensed consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4 to the interim condensed consolidated financial statements. Our conclusion is not modified in respect of this matter.

Совершенствуя бизнес,
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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A.A. Shlenkin
Partner
Ernst & Young LLC

August 22, 2018

Details of the entity

Name: Mechel PAO
Record made in the State Register of Legal Entities on March 19, 2003, State Registration Number 1037703012896.
Adress: Russia 125167, Moscow, Krasnoarmeyskaya street, 1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME
for the six months ended June 30, 2018

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

	Notes	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Revenue	3, 13	157,038	149,384
Cost of sales		(85,384)	(80,608)
Gross profit	13	**71,654**	**68,776**
Selling and distribution expenses		(28,851)	(27,723)
Loss on write-off of non-current assets		(200)	(148)
Allowance for expected credit losses on financial assets	7, 8	(528)	(443)
Taxes other than income taxes		(2,396)	(2,556)
Administrative and other operating expenses		(7,685)	(7,718)
Other operating income		647	489
Total selling, distribution and operating income and (expenses), net		**(39,013)**	**(38,099)**
Operating profit		**32,641**	**30,677**
Finance income	13, 14	7,863	442
Finance costs including fines and penalties on overdue loans and borrowings and finance leases payments of RUB 734 million and RUB 699 million for the six months ended June 30, 2018 and 2017, respectively	13, 14	(21,445)	(24,096)
Foreign exchange (loss) gain, net		(11,580)	1,804
Share of profit of associates, net		36	11
Other income		401	541
Other expenses		(171)	(70)
Total other income and (expense), net		**(24,896)**	**(21,368)**
Profit before tax		**7,745**	**9,309**
Income tax expense	15	(2,465)	(3,627)
Profit for the period		**5,280**	**5,682**
Attributable to:			
Equity shareholders of Mechel PAO		4,693	4,994
Non-controlling interests		587	688
Other comprehensive income			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods, net of income tax:		*(321)*	*28*
Exchange differences on translation of foreign operations		(321)	28
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of income tax:		*6*	*–*
Re-measurement of defined benefit plans		6	–
Other comprehensive (loss) income for the period, net of tax		**(315)**	**28**
Total comprehensive income for the period, net of tax		**4,965**	**5,710**
Attributable to:			
Equity shareholders of Mechel PAO		4,378	5,022
Non-controlling interests		587	688
Earnings per share			
Weighted average number of common shares		416,270,745	416,270,745
Basic and diluted profit for the period attributable to common equity shareholders of Mechel PAO (Russian rubles per share)		11.27	12.00

Chief Executive Officer of Mechel PAO ______ Oleg V. Korzhov   August 22, 2018

МЕЧЕЛ
Публичное акционерное общество * МЕЧЕЛ *
ОГРН 1037703012896
Российская Федерация, г. Москва

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of June 30, 2018

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

	Notes	June 30, 2018 (unaudited)	December 31, 2017
Assets			
Non-current assets			
Property, plant and equipment	5	195,635	197,875
Mineral licenses		32,626	33,240
Goodwill and other intangible assets		19,234	19,211
Investments in associates		291	283
Deferred tax assets		148	96
Other non-current assets		733	758
Non-current financial assets		199	202
Total non-current assets		**248,866**	**251,665**
Current assets			
Inventories	6	41,090	37,990
Income tax receivables		168	107
Trade and other receivables	7	19,839	18,762
Other current assets		7,831	7,589
Other current financial assets		546	562
Cash and cash equivalents	8	2,936	2,452
Total current assets		**72,410**	**67,462**
Total assets		**321,276**	**319,127**
Equity and liabilities			
Equity			
Common shares		4,163	4,163
Preferred shares		833	833
Additional paid-in capital		24,378	24,378
Accumulated other comprehensive income		988	1,303
Accumulated deficit		(282,121)	(283,743)
Equity attributable to equity shareholders of Mechel PAO		**(251,759)**	**(253,066)**
Non-controlling interests		9,515	8,933
Total equity		**(242,244)**	**(244,133)**
Non-current liabilities			
Loans and borrowings	3, 9, 10	15,991	17,360
Finance lease liabilities	9	2,327	1,878
Other non-current financial liabilities	14	42,516	40,916
Other non-current liabilities		128	138
Pension obligations		3,530	3,512
Provisions	11	3,847	3,814
Deferred tax liabilities	3, 15	10,025	11,494
Total non-current liabilities		**78,364**	**79,112**
Current liabilities			
Loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 32,451 million and RUB 41,992 million as of June 30, 2018 and December 31, 2017, respectively	3, 9, 10	422,971	422,533
Trade and other payables		33,640	33,469
Finance lease liabilities	9	6,572	7,476
Income tax payable		5,325	4,578
Taxes and similar charges payable other than income tax		7,162	6,696
Advances received		5,430	4,385
Other current financial liabilities	9, 17	534	734
Other current liabilities		75	69
Pension obligations		880	849
Provisions	11	2,567	3,359
Total current liabilities		**485,156**	**484,148**
Total liabilities		**563,520**	**563,260**
Total equity and liabilities		**321,276**	**319,127**

Chief Executive Officer of Mechel PAO ______ Oleg V. Korzhov   August 22, 2018

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

See accompanying notes to the unaudited interim condensed consolidated financial statements.

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended June 30, 2018

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

		Attributable to equity shareholders of Mechel PAO									
		Common shares		Preferred shares							
	Notes	Shares Quantity	Amount	Shares Quantity	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
As of January 1, 2018		**416,270,745**	**4,163**	**83,254,149**	**833**	**24,378**	**1,303**	**(283,743)**	**(253,066)**	**8,933**	**(244,133)**
Adjustment on initial application of IFRS 9	3	–	–	–	–	–	–	(1,684)	(1,684)	(5)	**(1,689)**
As of January 1, 2018 adjusted for the effect of IFRS 9		**416,270,745**	**4,163**	**83,254,149**	**833**	**24,378**	**1,303**	**(285,427)**	**(254,750)**	**8,928**	**(245,822)**
Profit for the period		–	–	–	–	–	–	4,693	4,693	587	**5,280**
Other comprehensive income (loss)											
Re-measurement of defined benefit plans		–	–	–	–	–	6	–	6	–	**6**
Exchange differences on translation of foreign operations		–	–	–	–	–	(321)	–	(321)	–	**(321)**
Total comprehensive income (loss) for the period		**–**	**–**	**–**	**–**	**–**	**(315)**	**4,693**	**4,378**	**587**	**4,965**
Dividends declared to equity shareholders of Mechel PAO	12	–		–	–	–	–	(1,387)	(1,387)	–	**(1,387)**
As of June 30, 2018 (unaudited)		**416,270,745**	**4,163**	**83,254,149**	**833**	**24,378**	**988**	**(282,121)**	**(251,759)**	**9,515**	**(242,244)**

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the six months ended June 30, 2018
(All amounts are in millions of Russian rubles, unless shares numbers)

		Attributable to equity shareholders of Mechel PAO									
		Common shares		Preferred shares							
	Notes	**Shares Quantity**	**Amount**	**Shares Quantity**	**Amount**	**Additional paid-in capital**	**Accumulated other compre-hensive (loss) income**	**Accumu-lated deficit**	**Equity attributable to shareholders of Mechel PAO**	**Non-controlling interests**	**Total equity**
As of January 1, 2017		**416,270,745**	**4,163**	**83,254,149**	**833**	**28,326**	**848**	**(294,444)**	**(260,274)**	**7,686**	**(252,588)**
Profit for the period		–	–	–	–	–		4,994	4,994	688	**5,682**
Other comprehensive income											
Exchange differences on translation of foreign operations		–	–	–	–	–	28	–	28	–	**28**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**28**	**4,994**	**5,022**	**688**	**5,710**
Dividends declared to equity shareholders of Mechel PAO	12	–	–	–	–	–	–	(856)	**(856)**	–	**(856)**
Dividends declared to non-controlling interests...................	12	–	–	–	–	–	–	–	–	(331)	**(331)**
As of June 30, 2017 (unaudited)..		**416,270,745**	**4,163**	**83,254,149**	**833**	**28,326**	**876**	**(290,306)**	**(256,108)**	**8,043**	**(248,065)**

MECHEL PAO
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended June 30, 2018

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

	Notes	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Cash flows from operating activities			
Profit for the period		**5,280**	**5,682**
Adjustments to reconcile profit to net cash provided by operating activities			
Depreciation of property, plant and equipment	5	6,250	6,334
Depletion of mineral licenses and amortisation of intangible assets		741	894
Foreign exchange loss (gain), net		11,580	(1,804)
Deferred tax (benefit) expense	15	(678)	646
Allowance for expected credit losses on financial assets	7, 8	528	443
Write-off of accounts receivable		67	18
Write-off of inventories to net realisable value	6	710	631
Loss on write-off of non-current assets		200	148
Loss on disposal of non-current assets		52	134
Gain on restructuring and forgiveness of accounts payable and write-off of accounts payable with expired legal term		(64)	(80)
Pension service cost and actuarial loss, other related expenses		71	64
Finance income	14	(7,863)	(442)
Finance costs including fines and penalties on overdue loans and borrowings and finance lease payments of RUB 734 million and RUB 699 million for the six months ended June 30, 2018 and 2017, respectively	14	21,445	24,096
Income associated with disposal of Bluestone		(3)	(462)
Provisions for legal claims, on taxes other than income tax and other provisions	11	(606)	(3)
Other		(45)	40
Changes in working capital items			
Trade and other receivables		(1,023)	(334)
Inventories		(4,221)	(2,474)
Trade and other payables		736	(2,247)
Advances received		932	597
Taxes payable and other liabilities		3,355	2,528
Other current assets		(139)	(424)
Income tax paid		(2,501)	(2,360)
Net cash provided by operating activities		**34,804**	**31,625**
Cash flows from investing activities			
Loans issued and other investments		–	(5)
Interest received		37	123
Proceeds from royalty and other proceeds associated with disposal of Bluestone		3	462
Proceeds from disposal of subsidiaries, net of cash disposed		–	82
Proceeds from loans issued and other investments		5	142
Proceeds from disposals of property, plant and equipment		64	58
Purchases of property, plant and equipment		(2,155)	(3,102)
Purchases of intangible assets		(150)	–
Interest paid, capitalised		(267)	(188)
Net cash used in investing activities		**(2,463)**	**(2,428)**
Cash flows from financing activities			
Proceeds from loans and borrowings, including proceeds from factoring arrangement of RUB 3,193 million and nil for the six months ended June 30, 2018 and 2017, respectively		4,054	6,179
Repayment of loans and borrowings, including payments from factoring arrangement of nil and RUB 2,670 million for the six months ended June 30, 2018 and 2017, respectively		(15,256)	(15,984)
Dividends paid to non-controlling interests		(5)	–
Interest paid, including fines and penalties		(16,818)	(15,869)
Repayment of obligations under finance lease		(1,474)	(1,983)
Deferred payments for acquisition of assets		(406)	(108)
Deferred consideration paid for the acquisition of subsidiaries in prior periods		(2,393)	(1,545)
Net cash used in financing activities		**(32,298)**	**(29,310)**
Effect of exchange rate changes on cash and cash equivalents		37	(268)
Allowance for expected credit losses on cash and cash equivalents		(32)	–
Net increase (decrease) in cash and cash equivalents		**48**	**(381)**
Cash and cash equivalents at beginning of period	8	2,452	1,689
Cash and cash equivalents, net of overdrafts at beginning of period	8	**1,223**	**1,453**
Cash and cash equivalents at end of period	8	2,936	2,951
Cash and cash equivalents, net of overdrafts at end of period	8	**1,271**	**1,072**

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

1. Corporate information

(a) Information

Mechel PAO ("Mechel", formerly – Mechel OAO and Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies owned by two individual shareholders (the "Controlling Shareholders"). During 2006, one of the Controlling Shareholders sold all his Mechel's stock to the other Controlling Shareholder, Igor Zyuzin, the ultimate controlling party. In accordance with the changes in the Civil Code of the Russian Federation Mechel has registered changes in its Charter on March 17, 2016 and changed its corporate name from Mechel OAO to Mechel PAO. The registered office is located at Krasnoarmeyskaya St. 1, Moscow 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the "Group". Set forth below is a summary of the Group's primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at June 30, 2018
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	January 1999	99.1%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	December 2001	94.2%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 2002	93.3%
Beloretsk Metallurgical Plant (BMP)	Russia	Steel products	June 2002	94.8%
Urals Stampings Plant (USP)	Russia	Steel products	April 2003	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	October 2003	90.0%
Mechel Nemunas (MN)	Lithuania	Steel products	October 2003	100.0%
Mechel Energo	Russia	Power generation and sale	February 2004	100.0%
Port Posiet	Russia	Transshipment	February 2004	97.8%
Izhstal	Russia	Steel products	May 2004	90.0%
Port Kambarka	Russia	Transshipment	April 2005	90.4%
Mechel Service	Russia	Trading	May 2005	100.0%
Mechel Coke	Russia	Coke production	June 2006	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	October 2006	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 2007	98.3%
Kuzbass Power Sales Company (KPSC)	Russia	Electricity distribution	June 2007	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferrosilicon production	August 2007	100.0%
Yakutugol	Russia	Coal mining	October 2007	100.0%
Port Temryuk	Russia	Transshipment	March 2008	100.0%
Mechel Carbon AG	Switzerland	Trading	April 2008	100.0%
HBL Holding GmbH (HBL)	Germany	Trading	September 2008	100.0%
Mechel Service Stahlhandel Austria GmbH and its subsidiaries	Austria	Trading	September 2012	100.0%
Elgaugol	Russia	Coal mining	August 2013	51.0%**
Elga-road	Russia	Railroad transportation	January 2016	51.0%**

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

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

(b) Business

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

(c) Seasonality

The Group's business is not significally affected by seasonality. Therefore, the additional disclosure of financial information for the 12-month period ended on the interim reporting date, encouraged by IAS 34 Interim Financial Reporting ("IAS 34"), is not provided

2. Basis of preparation of the interim condensed consolidated financial statements

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as of December 31, 2017.

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

The interim condensed 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 June 30, 2018, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia.

3. Changes to the Group's accounting policies

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards, interpretations and amendments effective as of January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9") that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations are applied for the first time in 2018, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts* ("IAS 11"), IAS 18 *Revenue* ("IAS 18") and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue 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. The Group has initially adopted IFRS 15 from January 1, 2018 using the full retrospective method.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The new significant accounting policies and the nature of the changes to the previous accounting policies are set out below. Under IFRS 15, revenue is recognized 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. Under IAS 18, the Group recognized such shipping and other freight revenue and accrued the associated costs in full on loading whereas under IFRS 15, freight and transportation services are required to be accounted for as separate performance obligations with revenue recognized over time as the service is rendered. The Group has finalized its analysis of IFRS 15 adoption and 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 recognized on a net basis. The effect of adoption of IFRS 15 on revenue recognition is not significant to the Group's unaudited interim condensed consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") for annual periods beginning on or after January 1, 2018.

Changes in the accounting policies resulting from the adoption of IFRS 9 have been applied as of January 1, 2018, with no restatement of comparative information. Consequently, the difference between the carrying amount of financial instruments under IAS 39 and the carrying amount under IFRS 9, related to debt restructurings accounted for as debt modifications, was recognized in the opening retained earnings (accumulated deficit). The Group has finalized its analysis of IFRS 9 adoption and the impact of IFRS 9 adoption as of January 1, 2018 is as follows:

- Increase in loans and borrowings amounted to RUB 2,551 million;
- Decrease in deferred tax liabilities amounted to RUB 862 million;
- The corresponding decrease in Accumulated deficit and Non-controlling interests amounted to RUB 1,684 million and RUB 5 million, respectively.

(a) Allowance for expected credit losses

To estimate the allowance for expected credit losses (ECLs) on Trade and other receivables the Group applied the standard simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group established a provision matrix that was based on the Group's historical credit loss experience adjusted for forward-looking factors specific to the debtors and the economic environment.

Allowance for expected credit losses on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. Effect from these changes in accounting policy upon adoption of IFRS 9 was not significant.

4. Going concern

The current economic environment and economic conditions in the major segments of the Group's operations retain uncertainty about the level of demand for the Group's products, the pricing of major products mined or manufactured by the Group, operation and financial results, the availability of free cash flow for repayment or ability to refinance and restructure current liabilities. The fall of the Russian ruble and intensification of sanctions imposed on Russia continued to adversely impact the Russian economy in 2018.

As of June 30, 2018, the Group's total liabilities exceeded total assets by RUB 242,244 million.

As of June 30, 2018, restructuring was not finalized with respect to the Group's credit facilities with the foreign banks and lenders such as ECA-covered loans creditors and therefore the Group was not in compliance with the payment schedules under certain credit facilities and a number of financial and non-financial covenants contained in the Group's loan agreements relating to RUB 411,028 million of the Group's debt. As of June 30, 2018, the Group's debt payable on demand was RUB 415,587 million, including RUB 288,609 million of long-term debt classified as short-term debt as of that date because debt restructuring was not finalized with respect to the Group's credit portfolio and due to contractual cross-default provisions, and RUB 13,562 million of fines and penalties accrued on overdue loans and overdue interest. As of the date of approval of these interim condensed consolidated financial statements, these breaches constitute an event of default and as a result, the lenders may request accelerated repayment of a substantial portion of the Group's debt. The Group does not have the resources to enable it to comply with such accelerated repayment requests immediately. However, the Group's management believes that the major part of the Group's debt has been extended as of the date of approval of the unaudited interim condensed consolidated financial statements and the Group will pursue to reach similar terms with other lenders.

Prior to approval of the unaudited interim condensed consolidated financial statements, the Group signed a new euro-denominated loan agreement in the amount of RUB 64,706 million to refinance existing pre-export credit facilities. According to the agreement, the loan matures in April 2022 (Note 17).

The management has concluded that the existing uncertainty about the Group's availability of free cash flow for repayment or ability to refinance and restructure current liabilities described above represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Based on management's plans and actions undertaken as noted herein, management believes that the Group will achieve restructuring with all of its lenders and secure adequate financing to continue in operational existence for the foreseeable future. The management's strategy includes enhancement of crude steel production, increase in sales of the major steel products as well as diversifying products range into specialty products, rails and beams targeting higher marginal market niches. Together with the further development of the Group's mining assets providing additional volumes of high-grade coking coal both to the Russian consumers and to exports markets the Group expects it to result in an increase in profitability. The Group's detailed monthly operational plans include further optimization of the costs structure and on-going control over the production costs and selling expenses.

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

5. Property, plant and equipment

During the six months ended June 30, 2018 and 2017, the Group acquired property, plant and equipment in the amount of RUB 4,865 million and RUB 4,712 million, respectively, including property under construction of RUB 3,089 million and RUB 3,645 million, respectively. Construction-in-progress put into operation during the six months ended June 30, 2018 and 2017 amounted to RUB 1,730 million and RUB 4,656 million, respectively.

Assets with a net book value of RUB 298 million were disposed of by the Group during the six months ended June 30, 2018 (six months ended June 30, 2017: RUB 193 million), resulting in a net loss on disposal of RUB 234 million (six months ended June 30, 2017: RUB 99 million).

Depreciation charge included in the interim condensed consolidated statement of profit (loss) and other comprehensive income amounted to RUB 6,250 million for the six months ended June 30, 2018 (June 30, 2017: RUB 6,334 million).

Assets under construction

As of June 30, 2018 and December 31, 2017, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 396 million and RUB 342 million, respectively.

Capitalised borrowing costs

Amount of borrowing costs capitalised during the six months ended June 30, 2018 and 2017 was RUB 293 million and RUB 445 million, respectively. The rate used to determine the amount of borrowing costs eligible for capitalisation was 8.30% (for the six months ended June 30, 2017: 10.07%), which is the average rate of the eligible borrowings.

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

6. Inventories

	June 30, 2018 (unaudited)	December 31, 2017
Raw materials	14,051	15,050
Work in progress	7,898	6,990
Finished goods and goods for resale	19,141	15,950
Total inventories at the lower of cost and net realizable value	**41,090**	**37,990**

The write-off of inventories to net realisable value amounted to RUB 710 million and RUB 631 million for the six months ended June 30, 2018 and 2017, respectively.

7. Trade and other receivables

	June 30, 2018 (unaudited)	December 31, 2017
Trade receivables, including	25,146	23,878
- domestic customers	20,035	19,064
- foreign customers	5,111	4,814
Other receivables	4,171	3,967
Total trade and other receivables	**29,317**	**27,845**
Less allowance for expected credit losses	(9,478)	(9,083)
Total accounts receivable, net	**19,839**	**18,762**

8. Cash and cash equivalents

	June 30, 2018 (unaudited)	December 31, 2017
Cash and cash equivalents		
Cash on hand	11	7
Cash at banks, including		
- in Russian rubles	*634*	*617*
- in U.S. dollars	*1,792*	*1,377*
- in euro	*374*	*305*
- in other currencies	*157*	*146*
Total cash and cash equivalents	**2,968**	**2,452**
Less allowance for expected credit losses	(32)	–
Total cash and cash equivalents, net	**2,936**	**2,452**

For the purpose of the interim condensed consolidated statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 1,665 million and RUB 1,229 million as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018 and December 31, 2017, the Group had short-term deposits included in cash at banks of RUB 557 million and RUB 1,062 million, respectively.

As of June 30, 2018 and December 31, 2017, the amount of RUB 30 million and RUB 24 million, respectively, was restricted for use by regulatory requirements.

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

9. Financial liabilities

Loans and borrowings

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

	June 30, 2018 (unaudited)		December 31, 2017	
Short-term borrowings and current portion of long-term debt	**Interest rate**	**Amount of outstanding debt**	**Interest rate**	**Amount of outstanding debt**
In Russian rubles				
Banks and financial institutions	11.3-11.5	4,969	9.3-12	2,410
Corporate lenders	6.7	65	6.7	65
Weighted average interest rate for the period	11.4		11.9	
In euro				
Banks and financial institutions	1.3-2.8	650	–	–
Corporate lenders		13	–	2
Weighted average interest rate for the period	1.3		–	–
Current portion of long-term debt		384,823	–	378,063
Interest payable		18,889	–	20,420
Fines and penalties on overdue amounts		13,562	–	21,573
Total short-term borrowings and current portion of long-term debt		**422,971**		**422,533**

	June 30, 2018 (unaudited)		December 31, 2017	
Long-term debt	**Interest rate**	**Amount of outstanding debt**	**Interest rate**	**Amount of outstanding debt**
In Russian rubles				
Banks and financial institutions	5.0-15.0	247,672	5.0-15.0	253,421
Bonds issued	8.0-12.3	12,641	8.0-14.0	14,459
Corporate lenders	6.7	6	6.7	5
Weighted average interest rate for the period	8.8		9.5	–
In U.S. dollars				
Banks and financial institutions	2.2-9.5	113,741	2.2-8.9	102,040
Weighted average interest rate for the period	9.0		8.3	–
In euro				
Banks and financial institutions	0.8-7.0	26,754	0.8-7.0	25,498
Weighted average interest rate for the period	2.7		2.7	–
Current part of long-term loans and borrowings		(384,823)		(378,063)
Total long-term debt		**15,991**		**17,360**

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

Aggregate scheduled maturities of the debt outstanding as of June 30, 2018 were as follows:

Payable	
On demand (current portion)	415,587
Within the next 12 months (current portion)	7,384
Between 2 and 3 years	6,687
Between 3 and 4 years	6,253
Between 4 and 5 years	3,045
Thereafter	6
Total	**438,962**

In July 2018, the Group signed a new euro-denominated loan agreement in the amount of RUB 64,706 million to refinance existing pre-export credit facilities. According to the agreement, the loan matures in April 2022 (Note 17).

Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, minimum value of shareholders' equity and certain cross-default provisions. The covenants also include, among other restrictions, limitations on: (1) raising of additional borrowings; (2) amount of dividends 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 loan agreements with the Russian state-owned banks as of June 30, 2018[1]:

Restrictive covenant	**Requirement**	**Actual as of June 30, 2018 (unaudited)[2]**
Mechel's EBITDA to Net Interest Expense	Shall not be less than 1.75:1.0	2.34:1.0
Mechel's EBITDA to Consolidated Financial Expense	Shall not be less than 1.75:1.0	2.05:1.0
Mechel's Net Debt to EBITDA	Shall not exceed 7.00:1.0	6.35:1.0
Mechel's Total Debt to EBITDA	Shall not exceed 4.50:1.0	5.98:1.0
Mechel's Cash flow from operating activities to EBITDA	Shall not be less than 0.80:1.0	0.81:1.0
Mechel's EBITDA to Revenue	Shall not be less than 0.20:1.0	0.27:1.0

As of June 30, 2018, the Group was not in compliance with covenants set by the loan agreements with Gazprombank and Sberbank (such as Total Debt to EBITDA ratio), the loan agreements with foreign banks (such as "Net Borrowings to EBITDA" ratio, "EBITDA to Net Interest Expense" ratio and targeted amount of Adjusted Shareholder's Equity) and other non-financial covenants with the Russian state-owned and foreign banks. There was a default on payments of principal and interest in the amount of RUB 87,247 million and RUB 15,165 million, respectively, which is represented primarily by the default of the pre-export facility agreement and ECA-covered loans (represented by the credit facilities of BNP, BNL, ING, Raiffeisen Bank and other international banks). As a result, the long-term debt of RUB 288,609 million was reclassified to short-term liabilities as of June 30, 2018.

Other current financial liabilities

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

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

2 EBITDA, Net interest expense, Consolidated financial expense, Cash flow from operating activities, Revenue are calculated for the past 12 months period.

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

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

In April 2017, VTB notified the Group of its decision to exercise the option. The Group has requested to extend the start day of the option period by one year till April 1, 2018. On August 9, 2017, the Group and VTB signed an amendment agreement postponing the option period start date till April 1, 2018, removing an option to acquire 5% of preferred shares and granting VTB the right to receive only a cash consideration in the amount equal to the higher of RUB 620 million less agreed payments or the amount calculated as a difference between the weighted average market value of preferred shares for the last six months from the date of the call from VTB and the price of 47.3682 rubles per share multiplied by the number of option shares. Respective financial liability is accounted for at fair value and was included in other current financial liabilities in the amount of RUB 534 million and RUB 734 million as of June 30, 2018 and December 31, 2017, respectively.

On August 10, 2018, VTB notified the Group of its decision to exercise the option and receive cash of RUB 442 million (Note 17).

Finance lease liabilities

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

	Minimum payments		**Present value of payments**	
	June 30, 2018 (unaudited)	**December 31, 2017**	**June 30, 2018 (unaudited)**	**December 31, 2017**
Payable in 1 year	7,414	8,700	6,572	7,476
Payable in 2 years	811	633	617	457
Payable in 3 years	793	584	660	458
Payable in 4 years	723	557	654	481
Payable in 5 years and thereafter	425	526	396	482
Total minimum lease payment	**10,166**	**11,000**	**8,899**	**9,354**
Less amounts representing finance charges	(1,267)	(1,646)	–	–
Present value of finance lease liabilities	**8,899**	**9,354**	**8,899**	**9,354**
Current portion of finance lease liabilities			6,572	7,476
Non-current portion of finance lease liabilities			2,327	1,878

The Group's finance lease contracts contain a number of covenants and restrictions, which include, but are not limited to, compliance with payment schedule and certain cross-default provisions. As of June 30, 2018, the Group was not in compliance with Group's restrictive covenants related to loan cross-default provisions. As a result, long-term finance lease liability of RUB 633 million was reclassified to short-term finance lease liabilities due to covenant violations as of June 30, 2018.

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

10. Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial liabilities as of June 30, 2018 and December 31, 2017:

		June 30, 2018 (unaudited)		December 31, 2017	
	Level	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities measured at amortised cost					
Loans and borrowings:					
- Floating rate loans and borrowings	3	402,249	375,551	402,024	355,794
- Bonds	1	12,874	12,573	14,759	13,984
- Fixed rate loans and borrowings	3	23,839	22,648	23,110	20,505
Other non-current financial liabilities	3	42,516	38,561	40,916	33,854
Financial liabilities measured at fair value					
Other current financial liabilities	2	534	534	734	734
Total		**482,012**	**449,867**	**481,543**	**424,871**

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

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

11. Provisions

	Rehabilitation provision	**Provisions for legal claims**	**Provisions for taxes other than income tax**	**Other provisions**	**Total**
At December 31, 2017	**3,992**	**2,290**	**576**	**315**	7,173
Arising during the period	160	578	4	50	**792**
Utilized	(24)	(201)	–	(6)	**(231)**
Revision in estimated cash flow	(11)	–	–	–	**(11)**
Unused amounts reversed	–	(540)	(403)	(295)	**(1,238)**
Discount rate adjustment and imputed interest	(93)	–	–	–	**(93)**
Exchange differences	–	–	22	–	**22**
At June 30, 2018	**4,024**	**2,127**	**199**	**64**	**6,414**
Current	177	2,127	199	64	**2,567**
Non-current	3,847	–	–	–	**3,847**

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

In the reporting period, the Group recognized unused amount reversed in respect of various cases because of risk adjustments based on new information and favorable court decisions.

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

12. Issued capital and reserves

On June 29, 2018, Mechel declared dividends of RUB 16.66 per a preferred share to the holders of preferred shares for 2017. Dividends to the third party holders of preferred shares amounted to RUB 1,387 million. In August 2018, the dividends on preferred shares declared for 2017 were paid in full.

On June 30, 2017, the Group's subsidiaries declared dividends attributable to non-controlling interests of RUB 331 million and Mechel declared dividends of RUB 10.28 per a preferred share to the holders of preferred shares for 2016. Dividends to the third party holders of preferred shares amounted to RUB 856 million.

13. Segment information

The following tables present revenue and profit information for the Group's operating segments for the six months ended June 30, 2018 and 2017.

Six months ended June 30, 2018 (unaudited)	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from external customers	48,400	94,382	14,256	–	**157,038**
Inter-segment revenue	19,045	2,955	7,621	(29,621)	**–**
Gross profit	41,284	22,701	6,800	869	**71,654**
Depreciation, depletion and amortization	(3,916)	(2,825)	(250)	–	**(6,991)**
Loss on write-off of non-current assets	(84)	(101)	(15)	–	**(200)**
Finance income	5,647	1,467	749	–	**7,863**
Intersegment finance income	523	194	22	(739)	**–**
Finance costs	(15,750)	(5,539)	(156)	–	**(21,445)**
Intersegment finance costs	(117)	(497)	(125)	739	**–**
Income tax (expense) benefit	(1,772)	(824)	(92)	223	**(2,465)**
Profit for the period	1,368	2,066	754	1,092	**5,280**

Six months ended June 30, 2017 (unaudited)	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from external customers	51,519	84,955	12,910	–	**149,384**
Inter-segment revenue	23,268	3,740	8,473	(35,481)	**–**
Gross profit	50,221	13,584	6,348	(1,377)	**68,776**
Depreciation depletion and amortization	(4,078)	(2,919)	(231)	–	**(7,228)**
Loss on write-off of non-current assets	(62)	(54)	(32)	–	**(148)**
Finance income	310	125	7	–	**442**
Intersegment finance income	730	297	25	(1,052)	**–**
Finance costs	(17,613)	(6,241)	(242)	–	**(24,096)**
Intersegment finance costs	(112)	(734)	(206)	1,052	**–**
Income tax expense	(3,122)	(474)	(31)	–	**(3,627)**
Profit (loss) for the period	11,290	(4,201)	(30)	(1,377)	**5,682**

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

	Six months ended June 30, 2018 (unaudited)	**Six months ended June 30, 2017 (unaudited)**
Domestic		
Russia	90,937	88,057
Other	14,622	11,220
Total	**105,559**	**99,277**
Export	51,479	50,107
Total revenue	**157,038**	**149,384**

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

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

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Russia	90,992	88,121
Asia	30,087	32,847
Europe	22,062	17,751
CIS	12,440	8,930
Middle East	1,239	1,158
USA	130	145
Other regions	88	432
Total	**157,038**	**149,384**

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

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Mining segment		
Coal and middlings	41,274	43,470
Coke and chemical products	6,307	7,039
Iron ore concentrate	139	84
Other	680	926
Total	**48,400**	**51,519**
Steel segment		
Long steel products	52,866	46,910
Hardware	14,847	13,477
Flat steel products	12,258	11,641
Forgings and stampings	7,680	6,219
Ferrosilicon	1,822	1,198
Steel pipes	1,593	1,327
Semi-finished steel products	33	440
Other	3,283	3,743
Total	**94,382**	**84,955**
Power segment		
Electricity	13,294	11,699
Other	962	1,211
Total	**14,256**	**12,910**
Total revenue	**157,038**	**149,384**

14. Finance income and costs

Finance income is comprised of the following:

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Waiving of fines and penalties on loans and finance leases	7,440	128
Remeasurement of fair value of financial instruments	226	197
Interest income from investments	103	115
Income from the discounting of financial instruments	94	2
Total	**7,863**	**442**

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

In April 2018, the Group received a confirmation from Gazprombank regarding its compliance with the agreed schedule of payments of debt under the Gazprombank credit facilities and this resulted in waiving of fines and penalties under the respective agreements of RUB 7,320 million.

Finance costs are comprised of the following:

	Six months ended June 30, 2018 (unaudited)	**Six months ended June 30, 2017 (unaudited)**
Interest on loans and borrowings	(17,910)	(20,382)
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	(723)	(607)
Finance charges payable under finance leases	(574)	(658)
Fines and penalties on overdue finance leases	(11)	(92)
Total finance costs related to loans, borrowings and finance leases	**(19,218)**	**(21,739)**
Interest expenses under pension liabilities	(138)	(153)
Expenses related to discounting of financial instruments	(1,910)	(2,056)
Remeasurement of fair value of financial instruments	(26)	–
Unwinding of discount on provisions	(153)	(148)
Total	**(21,445)**	**(24,096)**

Expenses related to discounting of financial instruments include changes in the measurement of the non-current obligation related to put-option granted on non-controlling interests in the amount of RUB 1,842 milion and RUB 2,004 million for the six months ended June 30, 2018 and 2017, respectively.

15. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax (expense) benefit for the six months ended June 30, 2018 and 2017 are:

Recognised in profit or loss	**Six months ended June 30, 2018 (unaudited)**	**Six months ended June 30, 2017 (unaudited)**
Current income tax		
Current income tax expense	(1,639)	(1,459)
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position	(1,504)	(1,522)
Deferred tax		
Relating to origination and reversal of temporary differences	678	(646)
Income tax expense reported in the interim condensed consolidated statement of profit (loss) and other comprehensive income	**(2,465)**	**(3,627)**

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 June 30, 2018 and December 31, 2017. In 2015-2018, the consolidated group of taxpayers consisted of 20 subsidiaries of the Group, together with Mechel PAO, which is the responsible taxpayer under the agreement. On October 2, 2017, an additional agreement was signed to extend the term of the consolidated group of taxpayers contract for an indefinite period.

Starting 2018, Elgaugol used a privilege and applied a 0% income tax rate due to fulfillment of conditions of the Regional investment project (RIP) resulting in an income tax benefit for the six months ended June 30, 2018.

Probable income tax risks of RUB 4,906 million and RUB 3,139 million as of June 30, 2018 and December 31, 2017, respectively, have been recorded in the Group’s unaudited interim condensed consolidated financial statements. Possible income tax risks of RUB 743 million and RUB 794 million as of June 30, 2018 and December 31, 2017, respectively, have not been recognised in the Group’s unaudited interim condensed consolidated financial statements.

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

16. Commitments and contingencies

Commitments

As of June 30, 2018 and December 31, 2017, the Group's contractual commitments to acquire property, plant and equipment amounted to RUB 2,883 million and RUB 19,393 million, respectively. As a result of changes in the Group's priorities in the investment program, various purchase contracts were terminated resulting in the decrease in the commitments related to acquisition of property, plant and equipment as of June 30, 2018.

Operating lease commitments

The Group has entered into operating property and land leases with lease terms between 2018 and 2066 years. Future minimum rentals payable under non-cancellable operating leases as of June 30, 2018 are, as follows:

	June 30, 2018 (unaudited)
Within one year	4,257
After one year but not more than five years	8,231
More than five years	55,485
Total rental payable	**67,973**

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

Contingencies

Legal claim contingency

The Group is involved in a number of court proceedings and claims arising out of the normal course of its business which are monitored, assessed and contested on the ongoing basis. Where management believes that a lawsuit or another claim would result in the outflow of the economic benefits for the Group, a best estimate of such outflow is included in provisions in the unaudited interim condensed consolidated financial statements. As of June 30, 2018, management assesses the risk of negative outcome of several court proceedings and claims where the Group's companies act as defendants in the aggregate amount of RUB 18,969 million as possible based on the carefully processed analysis and strong arguments provided by legal advisers. In February 2018, the Group successfully sustained its position in the first court instance related to one legal claim for the amount of RUB 12,700 million. The hearing is still ongoing.

Taxation

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Asser* ("IAS 37"), the Group accrued RUB 199 million of claims in respect of taxes other than income tax that management believes are probable, as of June 30, 2018.

Possible tax liabilities on taxes other than income tax, which were identified by management as those that can be subject to different interpretations of the tax law and regulations are not accrued in the unaudited interim condensed consolidated financial statements. The amount of such liabilities was RUB 1,792 million and RUB 1,354 million as of June 30, 2018 and December 31, 2017, respectively.

17. Events after the reporting period

These unaudited interim condensed consolidated financial statements for the six months ended June 30, 2018 were authorised for issuance on August 22, 2018.

Debt restructuring

In July 2018, the Group signed a new euro-denominated loan agreement in the amount of RUB 64,706 million to refinance existing pre-export credit facilities. According to the agreement, the loan matures in April 2022.

Other current financial liabilities

As discussed in Note 9, on August 10, 2018, VTB notified the Group on its decision to exercise the option and receive cash of RUB 442 million.