CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2019

CONTENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Mechel PAO

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Mechel PAO, a public joint stock company (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of profit (loss) and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 19, 2020 expressed an unqualified opinion thereon.

The Company's Ability to Continue as a Going Concern

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

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

Совершенствуя бизнес,
улучшаем мир

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

Ernst & Young LLC

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

March 19, 2020

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME
for the year ended December 31, 2019

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

	Notes	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Revenue from contracts with customers	25	296,567	312,574	299,113
Cost of sales		(187,857)	(177,756)	(160,356)
Gross profit	25	**108,710**	**134,818**	**138,757**
Selling and distribution expenses		(54,320)	(54,988)	(55,686)
Impairment of goodwill and other non-current assets,net	17	(1,804)	(7,222)	(6,081)
Allowance for expected credit losses on financial assets	12, 14	(235)	(940)	(332)
Taxes other than income taxes		(5,282)	(4,834)	(4,967)
Administrative and other operating expenses	24.1	(16,316)	(18,765)	(15,911)
Other operating income	24.3	745	1,711	1,387
Total selling, distribution and operating income and (expenses), net		**(77,212)**	**(85,038)**	**(81,590)**
Operating profit		**31,498**	**49,780**	**57,167**
Finance income	24.4	600	34,056	633
Finance costs including fines and penalties on overdue loans and borrowings and lease payments	24.4	(38,830)	(42,052)	(47,610)
Foreign exchange gain (loss), net		19,241	(25,775)	4,237
Share of profit of associates, net	7	28	10	18
Other income	24.5	239	512	1,495
Other expenses	24.5	(504)	(314)	(220)
Total other income and (expense), net		**(19,226)**	**(33,563)**	**(41,447)**
Profit before tax		**12,272**	**16,217**	**15,720**
Income tax expense	19	(7,987)	(2,681)	(3,150)
Profit for the period		**4,285**	**13,536**	**12,570**
Attributable to:				
Equity shareholders of Mechel PAO		2,409	12,628	11,557
Non-controlling interests		1,876	908	1,013

Chief Executive Officer of Mechel PAO ____________ Oleg V. Korzhov March 19, 2020

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

MECHEL PAO
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (continued)
for the year ended December 31, 2019

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

	Notes	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Other comprehensive income				
Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods, net of income tax:		*(1,771)*	*(9)*	*313*
Exchange differences on translation of foreign operations		(1,771)	(9)	313
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods, net of income tax:		*(867)*	*487*	*145*
Re-measurement of defined benefit plans	21	(867)	487	145
Other comprehensive (loss) income for the period, net of tax		**(2,638)**	**478**	**458**
Total comprehensive income for the period, net of tax		**1,647**	**14,014**	**13,028**
Attributable to:				
Equity shareholders of Mechel PAO		(210)	13,096	12,012
Non-controlling interests		1,857	918	1,016
Earnings per share				
Weighted average number of common shares	23	416,256,510	416,270,745	416,270,745
Earnings per share (Russian rubles per share) attributable to common equity shareholders, basic and diluted	23	5.79	30.34	27.76

Chief Executive Officer of Mechel PAO ______________ Oleg V. Korzhov March 19, 2020

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

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * МЕЧЕЛ * МЕЧЕЛ

MECHEL PAO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2019

(All amounts are in millions of Russian rubles)

	Notes	December 31, 2019	December 31, 2018
Assets			
Non-current assets			
Property, plant and equipment	15, 17	196,992	189,879
Mineral licenses	16	31,075	32,068
Goodwill and other intangible assets	16, 17	13,652	16,883
Investments in associates	7	321	293
Deferred tax assets	19	3,648	5,488
Other non-current assets	13	553	630
Non-current financial assets		232	244
Total non-current assets		**246,473**	**245,485**
Current assets			
Inventories	11	39,773	43,423
Income tax receivables		65	121
Trade and other receivables	12	15,340	17,612
Other current assets	13	6,982	8,673
Other current financial assets		363	508
Cash and cash equivalents	14	3,509	1,803
Total current assets		**66,032**	**72,140**
Total assets		**312,505**	**317,625**
Equity and liabilities			
Equity			
Common shares	23	4,163	4,163
Preferred shares	23	840	833
Treasury shares	23	(63)	–
Additional paid-in capital	23	24,434	24,378
Accumulated other comprehensive (loss) income		(848)	1,771
Accumulated deficit		(273,754)	(274,186)
Equity attributable to equity shareholders of Mechel PAO		**(245,228)**	**(243,041)**
Non-controlling interests		11,631	9,846
Total equity		**(233,597)**	**(233,195)**
Non-current liabilities			
Loans and borrowings	10.1	7,205	6,538
Lease liabilities	10.6	7,002	2,413
Other non-current financial liabilities	10.4	48,303	44,510
Other non-current liabilities		105	120
Pension obligations	21	4,933	3,819
Provisions	22	5,238	3,719
Deferred tax liabilities	19	13,877	13,506
Total non-current liabilities		**86,663**	**74,625**
Current liabilities			
Loans and borrowings, including interest payable, fines and penalties on overdue amounts of RUB 11,111 million and RUB 9,877 million as of December 31, 2019 and 2018, respectively	10.1	381,317	412,294
Trade and other payables	18	38,391	34,800
Lease liabilities	10.6	10,353	5,880
Income tax payable		9,161	6,425
Taxes and similar charges payable other than income tax	20	9,228	6,106
Advances received and other current liabilities		5,816	5,096
Pension obligations	21	615	772
Provisions	22	4,558	4,822
Total current liabilities		**459,439**	**476,195**
Total liabilities		**546,102**	**550,820**
Total equity and liabilities		**312,505**	**317,625**

Chief Executive Officer of Mechel PAO ____________ Oleg V. Korzhov March 19, 2020

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, 2019
(All amounts are in millions of Russian rubles, unless shares numbers)

		Attributable to equity shareholders of the parent									
		Common shares		Preferred shares							
	Notes	Shares Quantity	Amount	Shares Quantity	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated 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		–	–	–	–	–	–	11,557	**11,557**	**1,013**	**12,570**
Other comprehensive income (loss)											
Re-measurement losses on defined benefit plans	21	–	–	–	–	–	145	–	**145**	–	**145**
Exchange differences on translation of foreign operations		–	–	–	–	–	310	–	**310**	3	**313**
Total comprehensive income for the period		–	–	–	–	–	**455**	**11,557**	**12,012**	**1,016**	**13,028**
Dividends declared to equity shareholders of Mechel PAO	23	–	–	–	–	–	–	(856)	**(856)**	–	**(856)**
Dividends declared to non-controlling interests	23	–	–	–	–	–	–	–	–	(359)	**(359)**
Change in non-controlling interests	23	–	–	–	–	(3,948)	–	–	(3,948)	590	**(3,358)**
As of December 31, 2017		**416,270,745**	**4,163**	**83,254,149**	**833**	**24,378**	**1,303**	**(283,743)**	**(253,066)**	**8,933**	**(244,133)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2019

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

		Attributable to equity shareholders of the parent									
		Common shares		Preferred shares							
	Notes	Shares Quantity	Amount	Shares Quantity	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity attributable to shareholders of Mechel PAO	Non-controlling interests	Total equity
As of January 1, 2018 before the effect of IFRS 9		**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		–	–	–	–	–		12,628	12,628	908	**13,536**
Other comprehensive income (loss)											
Re-measurement losses on defined benefit plans	21	–	–	–	–	–	487	–	487	–	**487**
Exchange differences on translation of foreign operations		–	–	–	–	–	(19)	–	(19)	10	**(9)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**468**	**12,628**	**13,096**	**918**	**14,014**
Dividends declared to equity shareholders of Mechel PAO	23	–	–	–	–	–	–	(1,387)	(1,387)	–	(1,387)
As of December 31, 2018		**416,270,745**	**4,163**	**83,254,149**	**833**	**24,378**	**1,771**	**(274,186)**	**(243,041)**	**9,846**	**(233,195)**

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended December 31, 2019
(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	Shares Quantity	Amount	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, 2019 before the effect of IFRS 16		**416,270,745**	**4,163**	**83,254,149**	**833**	–	–	**24,378**	**1,771**	**(274,186)**	**(243,041)**	**9,846**	**(233,195)**
Adjustment on initial application of IFRS 16	3	–	–	–	–	–	–	–	–	(461)	**(461)**	(72)	**(533)**
As of January 1, 2019 adjusted for the effect of IFRS 16		**416,270,745**	**4,163**	**83,254,149**	**833**	–	–	**24,378**	**1,771**	**(274,647)**	**(243,502)**	**9,774**	**(233,728)**
Profit for the period		–	–	–	–	–	–	–	–	2,409	2,409	1,876	4,285
Other comprehensive income (loss)													
Re-measurement losses on defined benefit plans................	21	–	–	–	–	–	–	–	(848)	–	(848)	(19)	(867)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(1,771)	–	(1,771)	–	(1,771)
Total comprehensive income for the period..........................		–	–	–	–	–	–	–	**(2,619)**	**2,409**	**(210)**	**1,857**	**1,647**
Sale of preferred shares kept as treasury shares by the Group		–	–	709,130	7	–	–	56	–	–	63	–	63
Reacquired common shares			–	–	–	(1,018,996)	(63)	–	–	–	(63)	–	(63)
Dividends declared to equity shareholders of Mechel PAO	23	–	–	–	–	–	–	–	–	(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)**

Chief Executive Officer of Mechel PAO ______________ Oleg V. Korzhov March 19, 2020

See accompanying notes to the consolidated financial statements.

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2019

(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2019	2018	2017
Cash flows from operating activities				
Profit for the period		**4,285**	**13,536**	**12,570**
Adjustments to reconcile profit to net cash provided by operating activities				
Depreciation of property, plant and equipment and amortisation of mineral licenses and other intangible assets		15,176	13,859	14,227
Foreign exchange (gain) loss, net		(19,241)	25,775	(4,237)
Deferred income tax expense (benefit)	19	2,288	(2,596)	(3,401)
Changes in allowance for expected credit losses and write-off of trade and other receivables and payables, net		73	517	(522)
Write-off of inventories to net realisable value	11	1,763	1,162	470
Impairment of goodwill and other non-current assets, net and loss on write-off of non-current assets	17, 24.1, 24.3	2,880	7,953	6,423
Finance income	24.4	(600)	(34,056)	(633)
Finance costs including fines and penalties on overdue loans and borrowings and lease payments	24.4	38,830	42,052	47,610
Provisions for legal claims, taxes and other provisions		3,630	4,940	4,222
Other		198	575	(228)
Changes in working capital items				
Trade and other receivables		1,546	1,354	(318)
Inventories		(1,511)	(7,858)	(4,508)
Trade and other payables		4,037	4,150	(3,435)
Advances received		650	485	625
Taxes payable and other liabilities		5,151	683	(158)
Other assets		1,238	(851)	(895)
Income tax paid		(2,735)	(3,562)	(4,530)
Net cash provided by operating activities		**57,658**	**68,118**	**63,282**

MECHEL PAO
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended December 31, 2019

(All amounts are in millions of Russian rubles)

	Notes	Year ended December 31, 2019	2018	2017
Cash flows from investing activities				
Loans issued and other investments		–	–	(525)
Interest received		76	188	165
Royalty and other proceeds associated with disposal of subsidiaries		17	3	568
Proceeds from loans issued and other investments		313	9	144
Proceeds from disposals of property, plant and equipment		211	215	328
Purchases of property, plant and equipment		(6,282)	(5,472)	(6,460)
Purchases of intangible assets	16	–	(150)	(771)
Interest paid, capitalised		(256)	(440)	(587)
Net cash used in investing activities		**(5,921)**	**(5,647)**	**(7,138)**
Cash flows from financing activities				
Proceeds from loans and borrowings, including proceeds from factoring arrangement of RUB 214 million, RUB 918 million and RUB 272 million for the periods ended December 31, 2019, 2018 and 2017, respectively		7,599	76,504	23,200
Repayment of loans and borrowings, including payments from factoring arrangement of RUB 2,222 million, RUB 435 million and RUB 1,123 million for the periods ended December 31, 2019, 2018 and 2017, respectively		(20,772)	(97,269)	(35,033)
Repayment of other current financial liabilities	10.5	–	(442)	–
Dividends paid to shareholders of Mechel PAO		(1,515)	(1,386)	(856)
Dividends paid to non-controlling interests		(16)	(8)	(122)
Interest paid, including fines and penalties		(30,923)	(33,308)	(31,948)
Acquisition of non-controlling interests in subsidiaries		–	–	(3,358)
Repayment of lease liabilities		(2,276)	(2,780)	(3,513)
Effect of sale and leaseback transactions		248	–	–
Deferred payments for acquisition of assets		(341)	(629)	(455)
Deferred consideration paid for the acquisition of subsidiaries in prior periods		(361)	(3,968)	(3,652)
Net cash used in financing activities		**(48,357)**	**(63,286)**	**(55,737)**
Foreign exchange (gain) loss on cash and cash equivalents, net		(891)	63	(637)
Changes in allowance for expected credit losses on cash and cash equivalents	14	(2)	(91)	–
Net increase (decrease) in cash and cash equivalents		**2,487**	**(843)**	**(230)**
Cash and cash equivalents at beginning of period	14	1,803	2,452	1,689
Cash and cash equivalents, net of overdrafts at beginning of period	14	**380**	**1,223**	**1,453**
Cash and cash equivalents at end of period	14	3,509	1,803	2,452
Cash and cash equivalents, net of overdrafts at end of period	14	**2,867**	**380**	**1,223**

Chief Executive Officer of Mechel PAO ____________ Oleg V. Korzhov March 19, 2020

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", 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 V. Zyuzin. Igor V. Zyuzin with his family members is 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 name from Mechel OAO to Mechel PAO. The registered office is located at Krasnoarmeyskaya St. 1, Moscow, 125167, Russian Federation. Mechel and its subsidiaries are collectively referred to herein as the "Group". Set forth below is a summary of the Group's primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired / date of incorporation (*)	Interest in voting stock held by the Group at December 31, 2019
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 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%
Elgaugol	Russia	Coal mining	August 2013	51.0%**
Elga-road	Russia	Railroad transportation	January 2016	51.0%**

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

** In 2016, the Group sold 49% stakes in Elgaugol and Elga-road to Gazprombank. Simultaneously with this transaction, the Group granted to Gazprombank a put option to sell 49% stakes in these companies to the Group. The transaction in fact represents a financial liability, and these entities are consolidated based on 100% ownership (Note 10.4).

(b) Business

The Group operates in three business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke) and power (comprising electricity (generation and 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. Through acquisitions, the Group has added various businesses to explore new opportunities and build an integrated Group of steel, mining, ferroalloy and power companies. The Group operates in a highly competitive and cyclical industry; any local or global downturn in the industries may have an adverse effect on the Group's results of operations and financial condition. While the Group will utilize funds from operations, it expects to continue to rely on operating cash flow and long-term debt to finance major investment projects, focus on refinancing and restructuring of the loan portfolio and other financing sources for its capital needs. As discussed in Notes 4 and 5, management believes that the Group will secure adequate financing.

(c) Authorisation for issuance

These consolidated financial statements as of December 31, 2019 and for the year then ended were authorised for issuance on March 19, 2020.

2. Basis of preparation of the consolidated financial statements

(a) Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for specific financial assets and liabilities that have been measured at fair value.

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

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

The consolidated financial statements of the Group comply with the Russian Federal Law No. 208 *On Consolidated Financial Statements* (Law "208-FZ"), which was adopted on July 27, 2010. The Law 208-FZ provides the legal basis for certain entities to prepare the financial statements in accordance with IFRS as issued by the IASB and subsequently endorsed for use in the Russian Federation. As of December 31, 2019, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia. The consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries for the year ended December 31, 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit (loss) and other comprehensive income. 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 (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 (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 (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 (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 as 'Share of profit (loss) of associates' in the consolidated statement of profit (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 (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 principal or the most advantageous market must be accessible by the Group.

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

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

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

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

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

(e) Revenue 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 (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 (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. The Group is engaged into contracts for sales of goods which include transportation and freight services. In these contracts 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. 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 at that point revenue recognition criteria are met. 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. The application of the constraint does not result in more revenue being deferred than under previous IFRS.

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 when the customer pays for that good or service 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).

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

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

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

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

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

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

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

(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 company's functional currency.

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

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency 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.

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

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

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

	Exchange rates* at		Average exchange rates* for the year ended		
Currency	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**
U.S. dollar	61.91	69.47	64.74	62.71	58.35
Euro	69.34	79.46	72.50	73.95	65.90

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

The majority of the balances and operations not already denominated in the presentation currency were denominated in the U.S. dollar and euro. The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of 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 (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 recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the 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 subject only to terms that are usual and customary for sales of such assets (or disposal groups). For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated.

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

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

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

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

(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. The Group's proved and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

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 (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 (loss) and other comprehensive income as incurred.

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

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

Mining assets and processing plant and equipment

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

Items of production mines are stated at cost, less accumulated 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.

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 (u) Significant accounting judgements, estimates and assumptions). Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the consolidated statement of profit (loss) and other comprehensive income.

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

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

(k) Leases

The 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 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	2-5
Operating machinery and equipment	5-10
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 91 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 on the balance sheet and accounts for amounts received as a financial liability due to intention to excercise 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 (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.

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.

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 three categories:

- Financial assets at amortised cost;
- Financial assets at fair value through OCI;
- 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

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 (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.

The Group has no instruments measured at fair value through OCI.

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 at each reporting date based on the market price for the relevant period.

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.

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 10.
- Trade and other receivables − Note 12.

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 10.2. 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 (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 (loss) and other comprehensive income. This category generally applies to loans and borrowings (Note 10).

Put options written on non-controlling interests

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

Call options written on preferred shares

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

Derecognition

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

(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 (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, 2019, 2018 and 2017, the Group did not have any derivatives designated as hedging instruments.

(p) Inventories

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

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

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

Coal and iron ore inventory costs include direct labor, supplies, depreciation of equipment 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.

(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 16.
- Property, plant and equipment – Note 15.
- Impairment of goodwill and other non-current assets − Note 17.

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group's CGUs represent single entities with one component of business in each case.

In assessing value in use, the Group uses assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 (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. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit (loss) and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

(r) Cash and cash equivalents

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

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

(s) Provisions

General

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

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 (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 (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 (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 (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 1.15 million and at the rate of 22% from employee's annual income not exceeding RUB 1.15 million, managed within the framework of the social security scheme of the Russian Federation (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 24.2).

(u) 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.

(v) Significant accounting judgments, estimates and assumptions

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

Judgments

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

Railway depreciation method

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

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.

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).

Taxation

The Group is subject to taxation to the largest extent in Russia, and secondarily in other jurisdictions. The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Russian tax authorities take assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of the taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

In the event that a taxpayer submits a revised tax declaration for a period of more than three years in which the stated amount of tax is less than the amount previously declared, tax audit of a taxpayer may be performed, but only with the respect to the changes in the tax declaration.

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

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if taxpayers satisfy certain criteria and the amount of all transaction with related party exceeds RUB 1,000 million since 2019.

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.

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.

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.

Estimates and assumptions

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

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

Deferred tax assets

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

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.

Uncertain tax positions

The Group determines whether to consider each uncertain 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.

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 and extraction volumes, selling prices (coal, steel products). Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (Note 17).

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 17.

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 are periodically 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 22).

Pensions and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation and other long-term benefit plans are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. More details are provided in Note 21.

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. 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 15).

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 12).

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 11). 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.

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)).

(w) 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 (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.

(x) 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, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are described below.

The Group applied for the first time IFRS 16 Leases ("IFRS 16"). Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases* ("IAS 17"), IFRIC 4 *Determining whether an Arrangement Contains a Lease* ("IFRIC 4"), SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee should recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately present the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee should generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor's accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group applied IFRS 16 from January 1, 2019 retrospectively with a cumulative effect recognised at the date of initial application. The Group has applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The right-of use assets were measured at the amount equal to the lease liability adjusted for the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as of December 31, 2018. The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases, that is the right-of-use assets and lease liabilities equal to the lease assets and liabilities recognised under IAS 17. The Group has used the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application. The lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term. Also, the Group has used the following practical expedient: direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.

In previous years, the majority of the Group's outstanding short-term and long-term lease contracts were cancellable. IAS 17 requires disclosing operating lease commitments for non-cancellable leases only, while under IFRS 16, the Group is also required to include in lease liabilities the payments relating to the term periods covered by an option to terminate the lease if the lessee is reasonably certain not exercise that option.

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

The impact on the consolidated statement of financial position (increase/(decrease)) as of January 1, 2019 is presented in the table below:

	Millions of Russian rubles
Assets	
Property, plant and equipment (right-of-use assets) (Note 15)	2,698
Deferred tax assets	28
Total assets	**2,726**
Liabilities	
Non-current lease liabilities	3,125
Current lease liabilities	134
Total liabilities	**3,259**
Net impact on equity	**(533)**

The net impact on equity is attributable to the impairment of right-of-use assets at cash-generating units (CGU) for which impairment of non-current assets was identified and recognised as of December 31, 2018.

On adoption of IFRS 16, the Group has recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019.

The lease liabilities as of January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	Millions of Russian rubles
Operating lease commitments of RUB 7,513 million (total rentals payable of RUB 60,911 million excluding leases to explore or use mineral deposits of RUB 53,398 million) discounted at 9.2% as of January 1, 2019	**2,647**
Reclassification from finance lease liabilities	8,293
Commitments relating to short-term leases	(73)
Adjustments as a result of a different treatment of extension and termination options, net	685
Lease liabilities as of January 1, 2019	**11,552**

From the date of initial application of IFRS 16 (refer to Note 3 (k)), the right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities and recognised within property, plant and equipment. The majority of right-of-use assets are represented by land and transportation vehicles. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The Group will continue to use practical expedients which were applied by the Group at the date of initial application of the new standard, whereas the direct costs will be included in the measurement of the right-of-use asset at the commencement date after initial application. The depreciation on right-of-use assets is recognised within cost of sales, selling and distribution expenses, administrative and other expenses based on the function of the related asset. The interest expense on lease liabilities is recognised within finance costs.

Other amended standards

The following amended standards became effective from 1 January 2019, but did not have any material impact on the consolidated financial statements of the Group:

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 - *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 - *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Annual Improvements to IFRSs 2015-2017 cycle amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are discussed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective. The following other new pronouncements are not expected to have any material impact on the Group's consolidated financial statements:

- Amendments to IFRS 3 - *Definition of a Business* (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Amendments to IAS 1 and IAS 8 - *Definition of Material* (issued on 31 October 2018 and effective for annual reporting periods beginning on or after 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7 - *Interest Rate Benchmark Reform* (issued on 26 September 2019 and effective for annual reporting periods beginning on or after 1 January 2020).
- Amendments to IAS 1 - *Classification of Liabilities as Current or Non-current* (issued on 23 January 2020 and effective for annual reporting periods beginning on or after 1 January 2022).

4. Going concern

The Group's total liabilities exceeded total assets by RUB 233,597 million as of December 31, 2019.

As of December 31, 2019, 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 were breached, as further described in Note 5. 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.

As a result of these conditions, as of December 31, 2019, the Group's debt payable on demand amounted to RUB 373,705 million, including RUB 220,046 million of long-term debt classified as short-term debt due to contractual cross-default provisions and RUB 2,097 million of fines and penalties accrued on overdue loans and overdue interest.

As of the date of approval of the consolidated financial statements, the Group did not have sufficient own resources to enable it to comply with such accelerated repayment requests immediately or make payments within 12 months after the date of approval of these consolidated financial statements, in accordance with the repayment schedules agreed, pursuant to earlier loan restructurings. The Group is negotiating with Gazprombank and VTB to restructure and amend the terms and conditions of its existing debt to extend debt maturities beyond 12 months after the date of approval of these consolidated financial statements. In relation thereto, in January-February 2020, the Group requested and received consents from Gazprombank and VTB waiving the accelerated repayment of debt principal until April 1, 2020 and March 31, 2020, respectively, if interest and commissions were paid timely under the respective loan agreements. The Group has made such interest and commission payments on time.

As part of its debt restructuring plans, the Group is considering the sale of certain assets. As such, in January 2020, the Group entered into negotiations relating to the sale of the Elga coal complex to a prospective buyer, which would allow the Group to reduce its debt burden. However, as of the date of approval of the consolidated financial statements, the Group has not agreed a binding sale and it is currently unclear if or when it will be able to conclude a sale of the Elga coal complex. As the sale of the Elga coal complex is currently included as part of the planned debt restructuring, if the sale does not go ahead as planned, the debt restructuring plan will need to be amended.

Management has concluded that the existing uncertainty about the Group's availability of free cash flow for repayment, its ability to refinance and restructure current liabilities described above and its ability to comply with financial and non-financial covenants contained in its loan agreements, represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. As described above, management is in the process of and intends to achieve a debt restructuring with its lenders to enable the Group to continue in operational existence for at least 12 months after the date of approval of these consolidated financial statements. Management's strategy also includes enhancement of steel production of the most profitable products, diversification of product range to quickly respond to market changes, and 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 has a history of successful negotiations of debt restructurings. However, if its ongoing discussions with the relevant lenders are unsuccessful or covenants continue to be breached and are not waived by the lenders, the related debt will continue to be payable on demand. In that situation, the Group will consider all available legal options to protect the Group's operations while negotiating the terms of the restructuring of its debt.

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

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

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

5. Capital management

The equity capital of the Group was formed by injecting shares of its operating subsidiaries into Mechel PAO. This together with obtaining profits allowed the Group to raise debt to finance major investment projects as well as to acquire new companies. Although it has always been the Group's priority to create and grow the shareholders' value, during the past several years, the Group has become more focused on managing its debt, which has been the major source for expansion and growth.

Metals and mining industry is known for its capital intensive investment cycle requiring secure long-term financing. In 2012-2015, high price volatility on the coal seaborne market and metal market resulted in the decrease in the Group's operating profit and impairments of non-current assets. Devaluation of the national currency (Russian ruble) affected the amount of foreign exchange losses and increase in cost of financing on local and foreign debt markets. These factors became the major reason for the losses incurred by the Group in the past and resulted in significant negative equity.

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

The Group was required to comply with the following ratios under the most significant loan agreements with the Russian state-controlled banks as of December 31, 2019:

Restrictive covenants	Requirement	Actual as of December 31, 2019
Group's EBITDA to Net Interest Expense	Shall not be less than 2.0:1.0	1.36:1.0
Group's EBITDA to Consolidated Financial Expense	Shall not be less than 2.0:1.0	1.40:1.0
Group's Net Debt to EBITDA	Not exceed 6.0:1.0	8.85:1.0
Group's Total Debt to EBITDA	Not exceed 3.5:1.0	8.51:1.0
Group's Cash flow from operating activities to EBITDA	Shall not be less than 0.8:1.0	1.08:1.0
Group's EBITDA to Revenue	Shall not be less than 0.2:1.0	0.18:1.0

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, 2018[1]:

Restrictive covenants	Requirement	Actual as of December 31, 2018
Group's EBITDA to Net Interest Expense	Shall not be less than 1.75:1.0	1.79:1.0
Group's EBITDA to Consolidated Financial Expense	Shall not be less than 1.75:1.0	1.82:1.0
Group's Net Debt to EBITDA	Not exceed 6.0:1.0	6.39:1.0
Group's Total Debt to EBITDA	Not exceed 4.5:1.0	6.25:1.0
Group's Cash flow from operating activities to EBITDA	Shall not be less than 0.8:1.0	0.90:1.0
Group's EBITDA to Revenue	Shall not be less than 0.2:1.0	0.24:1.0

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

The main goal for the Group is to achieve long-term restructuring of the loan portfolio with a gradual decrease in debt balance, which will permit to restore working capital, improve efficiency of operations and provide ability to sustain full service of debt in accordance with newly agreed repayment schedules as well as use of all available free cash flow for repayment of debt.

The objectives, policies and processes for managing capital during the year ended December 31, 2019 and 2018 were not changed.

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

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

6. 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, 2019	At December 31, 2018
SKCC and subsidiaries*	0.9%	0.9%
Kuzbass Power Sales Company (KPSC)	27.9%	27.9%
Chelyabinsk Metallurgical Plant (CMP)	5.8%	5.8%
Southern Urals Nickel Plant (SUNP)	15.9%	15.9%
Beloretsk Metallurgical Plant (BMP)	8.6%	8.6%
Korshunov Mining Plant (KMP)	10.0%	10.0%
Urals Stampings Plant (USP)	6.2%	6.2%
Izhstal	10.0%	10.0%

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

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

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

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers	35,059	24,624	113,020	198	22,061	15,776	17,231	20,208
Cost of sales	(21,667)	(12,479)	(101,258)	(54)	(19,263)	(6,739)	(12,330)	(17,631)
Total selling, distribution and operating expenses, net	(7,264)	(11,531)	(11,406)	(218)	(1,749)	(4,439)	(1,157)	919
Total other income and (expense), net	(233)	209	4,173	235	41	1,831	1,633	(99)
Profit before tax	**5,895**	**823**	**4,529**	**161**	**1,090**	**6,429**	**5,377**	**3,397**
Income tax (expense) benefit	(372)	(174)	(551)	(37)	(28)	(271)	(323)	97
Profit for the period	**5,523**	**649**	**3,978**	**124**	**1,062**	**6,158**	**5,054**	**3,494**
Total comprehensive income	**5,523**	**649**	**3,978**	**124**	**1,062**	**6,158**	**5,054**	**3,494**
Attributable to non-controlling interests	79	182	231	20	91	613	315	348
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–

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

Summarised statements of profit (loss) and other comprehensive income for 2018:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Revenue from contracts with customers	32,251	24,084	124,372	88	25,899	9,989	16,549	21,173
Cost of sales	(18,123)	(12,077)	(101,829)	(47)	(24,095)	(6,222)	(13,131)	(19,392)
Total selling, distribution and operating expenses, net	(9,064)	(11,894)	(11,988)	(170)	(1,867)	(4,250)	(1,099)	(2,498)
Total other income and (expense), net	(4,514)	343	(5,114)	722	1,034	2,103	2,090	(1,097)
Profit (loss) before tax	**550**	**456**	**5,441**	**593**	**971**	**1,620**	**4,409**	**(1,814)**
Income tax (expense) benefit	(1,707)	(94)	1,443	(115)	(34)	46	(109)	228
(Loss) profit for the period	**(1,157)**	**362**	**6,884**	**478**	**937**	**1,666**	**4,300**	**(1,586)**
Total comprehensive (loss) income	**(1,157)**	**362**	**6,884**	**478**	**937**	**1,666**	**4,300**	**(1,586)**
Attributable to non-controlling interests	12	101	345	76	83	166	269	(154)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–

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

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

Summarised statements of financial position as of December 31, 2019:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	74,924	4,373	46,448	3,301	14,127	20,413	15,374	4,049
Non-current assets	61,772	4,316	170,004	4,556	3,651	23,484	19,942	4,405
Current liabilities	(135,625)	(2,727)	(177,585)	(93)	(5,308)	(3,001)	(5,504)	(10,153)
Non-current liabilities	(6,626)	(176)	(2,757)	(610)	(261)	(1,098)	(422)	(2,634)
Total equity	**5,555**	**(5,786)**	**(36,110)**	**(7,154)**	**(12,209)**	**(39,798)**	**(29,390)**	**4,333**
Attributable to:								
Equity shareholders of Mechel PAO	5,828	(4,176)	(34,021)	(6,019)	(11,156)	(35,836)	(27,565)	3,908
Non-controlling interests	(273)	(1,610)	(2,089)	(1,135)	(1,053)	(3,962)	(1,825)	425

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

Summarised statements of financial position as of December 31, 2018:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Current assets	49,771	3,735	38,571	1,507	9,594	13,863	10,217	5,171
Non-current assets	81,868	4,187	174,639	6,201	6,442	23,221	19,139	1,803
Current liabilities	(101,714)	(2,757)	(176,114)	(108)	(4,751)	(2,336)	(4,870)	(12,765)
Non-current liabilities	(40,888)	(31)	(4,921)	(204)	(141)	(917)	(137)	(1,987)
Total equity	**10,963**	**(5,134)**	**(32,175)**	**(7,396)**	**(11,144)**	**(33,831)**	**(24,349)**	**7,778**
Attributable to:								
Equity shareholders of Mechel PAO	11,157	(3,706)	(30,314)	(6,223)	(10,182)	(30,462)	(22,837)	7,010
Non-controlling interests	(194)	(1,428)	(1,861)	(1,173)	(962)	(3,369)	(1,512)	768

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

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating	12,043	243	10,898	(146)	(2,482)	2,867	1,375	2,839
Investing	(950)	(58)	(3,522)	163	2,685	(2,627)	(912)	(72)
Financing	(10,945)	(245)	(7,108)	(17)	505	(240)	(199)	(2,741)
Increase (decrease) in cash and cash equivalents, net	**148**	**(60)**	**268**	**–**	**708**	**–**	**264**	**26**

Summarised cash flow information for the year ended December 31, 2018:

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating	13,152	193	13,015	(264)	(1,891)	1,325	3,950	1,647
Investing	547	(97)	(76,283)	264	1,870	(1,003)	(1,163)	(89)
Financing	(13,651)	(99)	63,200	–	(169)	(322)	(2,829)	(1,604)
Increase (decrease) in cash and cash equivalents, net	**48**	**(3)**	**(68)**	**–**	**(190)**	**–**	**(42)**	**(46)**

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

	SKCC and subsidiaries	KPSC	CMP	SUNP	BMP	KMP	USP	Izhstal
Operating	3,434	112	8,036	(211)	(1,221)	500	560	751
Investing	8,008	(38)	(2,950)	210	1,477	(329)	949	73
Financing	(11,445)	(45)	(4,826)	–	(323)	(172)	(1,590)	(755)
(Decrease) increase in cash and cash equivalents, net	**(3)**	**29**	**260**	**(1)**	**(67)**	**(1)**	**(81)**	**69**

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

7. Investments in associates

Investments in associates comprised of:

Investee	Percent of shares held at December 31, 2019	Percent of shares held at December 31, 2018	Investment carrying value at December 31, 2019	Investment carrying value at December 31, 2018
TPTU (Mining segment)	40%	40%	208	189
TRMZ (Mining segment)	25%	25%	113	104
Total investments in associates			**321**	**293**

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
December 31, 2016	**175**	**90**	**265**
Share of profit	9	9	**18**
December 31, 2017	**184**	**99**	**283**
Share of profit	5	5	**10**
December 31, 2018	**189**	**104**	**293**
Share of profit	19	9	**28**
December 31, 2019	**208**	**113**	**321**

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

8. 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 2019, 2018 and 2017.

	2019			2018			2017		
	Purchases	**Sales**	**Other loss (income)**	**Purchases**	**Sales**	**Other loss (income)**	**Purchases**	**Sales**	**Other loss (income)**
Associates	110	98	–	121	103	(33)	230	134	(6)
Controlling shareholders and entities under control of the Group's Controlling shareholders	904	184	138	280	52	(9)	267	50	(33)
Total	**1,014**	**282**	**138**	**401**	**155**	**(42)**	**497**	**184**	**(39)**

As of December 31, 2019 and 2018, the Group had the following balances in settlement with related parties:

	December 31, 2019			December 31, 2018		
	Financial assets from	**Financial liabilities to**	**Total outstanding, net**	**Financial assets from**	**Financial liabilities to**	**Total outstanding, net**
Associates	7	(6)	1	7	(13)	(6)
Controlling shareholders and entities under control of the Group's Controlling shareholders	100	(963)	(863)	50	(500)	(450)
Total	**107**	**(969)**	**(862)**	**57**	**(513)**	**(456)**

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

As of December 31, 2019 and 2018, the amounts of non-current financial assets fully covered by the allowance for expected credit losses included amounts receivable of RUB 24,391 million and RUB 24,391 million, respectively, described below. In December 2013, the Group, related party (an entity wholly owned by the Controlling Shareholder) and the former Estar metallurgical plants (hereinafter referred to as "metallurgical plants") signed an assignment agreement. Under that agreement, the Group assigned to its related party the right to collect amounts due from the metallurgical plants, and the related party is to repay this amount to the Group through November 2017. In November 2017, the Group extended the terms of repayment through 2022. The amount of receivables and allowance for expected credit losses have been reclassified to Non-current financial assets (Note 12).

The outstanding cash balance in Coalmetbank, an entity under control of the Group's controlling shareholders, was RUB 1,509 million and RUB 703 million as of December 31, 2019 and December 31, 2018, respectively.

In 2019, the Group purchased energy and electricity from its related party in the amount of RUB 692 million.

(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 (loss) and other comprehensive income and consisted of the short-term employee benefits in the amount of RUB 592 million, RUB 561 million and RUB 613 million in the year ended December 31, 2019, 2018 and 2017, 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)

9. 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, 2019		December 31, 2018	
	Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortised cost					
Floating rate loans and borrowings	2	370,312	357,276	384,608	356,444
Bonds	1	6,483	6,534	11,195	10,876
Fixed rate loans and borrowings	2	11,727	11,169	23,029	21,852
Other non-current financial liabilities (Note 10.4)	2	48,303	46,200	44,510	40,528
Total		**436,825**	**421,179**	**463,342**	**429,700**

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 interest rates adjusted for risk premium at the reporting dates (Level 2).

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 and bank overdrafts approximate their carrying amounts largely due to the short-term maturities of these instruments.

As of December 31, 2019 and 2018, trade receivables of RUB 459 million and RUB 1,938 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 loss of RUB 815 million, net gain of RUB 29 million and net loss of RUB 1,520 million and are recorded within revenue for the year ended December 31, 2019, 2018 and 2017, respectively.

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.

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

10. Financial assets and financial liabilities

10.1 Financial liabilities: loans and borrowings

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

	December 31, 2019		December 31, 2018	
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	7.8	1,347	9.3-9.6	3,634
Corporate lenders	–	–	6.7	10
Weighted average interest rate for the period	7.8		9.4	
In euro				
Banks and financial institutions	1.7-1.9	524	1.3-2.8	580
Corporate lenders	–	–	3.0	22
Weighted average interest rate for the period	1.9		1.5	
Current portion of long-term debt	–	368,335	–	398,171
Interest payable	–	9,014	–	7,749
Fines and penalties on overdue amounts	–	2,097	–	2,128
Total short-term borrowings and current portion of long-term debt		**381,317**		**412,294**

	December 31, 2019		December 31, 2018	
Long-term debt	**Interest rate, %**	**Amount of outstanding debt**	**Interest rate, %**	**Amount of outstanding debt**
In Russian rubles				
Banks and financial institutions	1.0-9.8	239,659	5.0-10.0	242,499
Bonds issue	8.0-11.9	6,370	8.0-12.3	10,979
Corporate lenders	9.3	43	6.7	73
Weighted average interest rate for the period	7.9		9.3	
In U.S. dollars				
Banks and financial institutions	3.2-9.0	44,725	3.9-9.9	54,719
Corporate lenders	–	–	3.0	138
Weighted average interest rate for the period	8.4		8.6	
In euro				
Banks and financial institutions	0.8-7.0	84,743	0.8-7.0	96,301
Weighted average interest rate for the period	4.8		4.8	
Current part of long-term loans and borrowings		(368,335)		(398,171)
Total long-term debt		**7,205**		**6,538**

Aggregate scheduled maturities of the debt outstanding as of December 31, 2019 were as follows:

Payable by	
On demand	373,705
2020 (current portion)	7,612
2021	4,829
2022	2,292
2023	14
2024	49
Thereafter	21
Total	**388,522**

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

The unused portion under all credit facilities as of December 31, 2019 and 2018 was RUB 514 million and RUB 573 million, respectively.

The outstanding balances of principal amount of short-term and long-term debt by denominated currencies and major banks as of December 31, 2019 and 2018 were as follows:

Short-term and long-term debt	**December 31, 2019**	**December 31, 2018**
Russian ruble-denominated		
Gazprombank	139,971	142,635
VTB	99,411	73,416
Sberbank	–	25,723
Bonds	6,370	10,979
Eximbank of Russia	–	3,305
Other	1,667	1,137
Total	**247,419**	**257,195**
U.S. dollar-denominated		
VTB	27,256	7,573
BNP	9,587	10,759
VEB	7,000	8,794
Sberbank	–	23,147
MCB	676	4,037
Pre-export facility	–	7
Other	206	540
Total	**44,725**	**54,857**
Euro-denominated		
VTB	66,145	74,794
BNP	13,793	15,752
ING Bank	2,221	2,541
NatWest Markets	1,352	1,549
Commerzbank	–	1,317
Deutsche Bank AG.	1,150	–
Other	606	950
Total	**85,267**	**96,903**
Total short-term and long-term debt	**377,411**	**408,955**

(a) Pre-export facility agreement

In 2018, the Group refinanced an existing pre-export credit facility by receiving a new euro-denominated loan from VTB in the amount of RUB 66,368 million (EUR 897 million at the dates of transactions). The loan matures in April 2022. The outstanding balances of the pre-export credit facility as of December 31, 2019 and 2018 were nil and RUB 7 million ($100 thousand at exchange rate as of December 31, 2018), respectively.

The finance income in the amount of RUB 12,854 million was recorded in the consolidated statements of profit (loss) and other comprehensive income for the year ended December 31, 2018 as a result of refinancing of pre-export credit facility.

(b) VTB facilities

In November 2019, all the ruble-denominated credit facilities of CMP, SKCC and BFP were transferred from Sberbank to VTB according to the assignment agreement between Sberbank and VTB, the terms and conditions remained the same in the assigned agreement.

The outstanding balances of the ruble-denominated facilities as of December 31, 2019 and 2018 were RUB 99,411 million and RUB 73,416 million, respectively, bearing interest at 7.8-8.8% p.a.

In December 2016, the Group signed amendments to the restructuring agreements and, in April 2017, VTB confirmed the restructuring terms under the credit facilities of Mechel PAO, CMP, SKCC and Yakutugol including an extension of the repayment grace period until 2020 and the final maturity until 2022 and annual interest rate at the level of the key rate of the Central Bank of the Russian Federation plus 1.5% for the ruble-denominated credit facilities. In accordance with the restructuring terms, the repayment of a RUB 30,000 million credit facility issued to Mechel PAO is made in equal installments within 36 months starting February 22, 2017 from the proceeds received from VTB under the credit facility issued to CMP[2].

In October 2018, the Group fulfilled the terms of restructuring agreement signed in 2015. Consequently, finance income in the amount of RUB 12,101 million, including fines and penalties in the amount of RUB 9,878 million, was recognised in the consolidated statements of profit (loss) and other comprehensive income for the year ended December 31, 2018.

In 2018, the Group received an euro-denominated loan from VTB bearing interest at 1M EURIBOR plus 5.5% p.a. in the amount of EUR 897 million (RUB 66,368 million at the date of transactions) in order to refinance the existing pre-export credit facilities in the amount of EUR 864 million (RUB 63,844 million at the date of transactions) and for other purposes in the amount of EUR 33 million (RUB 2,524 million at the date of transactions).

The outstanding balances of the euro-denominated credit facilities as of December 31, 2019 and 2018 were RUB 66,145 million and RUB 74,794 million, respectively, bearing interest at 5.3-7.0% p.a.

In November 2019, all the U.S. dollar-denominated credit facilities of SKCC were transferred from Sberbank to VTB according to the assignment agreement between Sberbank and VTB.

The outstanding balance of the U.S. dollar-denominated credit facilities as of December 31, 2019 and 2018 was RUB 27,256 million and RUB 7,573 million, respectively, bearing interest at 9.0% p.a.

(c) Gazprombank facilities

The outstanding balances of the ruble-denominated facilities as December 31, 2019 and 2018 were RUB 139,971 million and RUB 142,635 million, respectively, bearing interest at 7.8% p.a.

In 2015, the Group signed restructuring agreements (became effective in 2016) and in April 2017, Gazprombank confirmed the restructuring terms of the credit facilities of SKCC, Yakutugol, CMP, Mechel Service, Mechel-Energo, BMP, Port Posiet, Mechel Coke and USP including an extension of the repayment grace period until 2020 and of the final maturity until 2022 and annual interest rate at the level of the key rate of the Central Bank of the Russian Federation plus 1.5% for the ruble-denominated credit facilities.

In March 2018, the Group fully repaid the overdue interest accrued prior to the credit facilities restructuring in 2016. Consequently, fines and penalties in the amount of RUB 7,323 million were recorded as finance income in the consolidated statements of profit (loss) and other comprehensive income for the year ended December 31, 2018.

(d) Sberbank facilities

In November 2019, all the ruble-denominated credit facilities of CMP, SKCC and BFP, excluding interest payable for the amount of RUB 182 million, were transferred from Sberbank to VTB according to the assignment agreement between Sberbank and VTB, the terms and conditions remained the same in the assigned agreement.

The outstanding balances of the ruble-denominated facilities as of December 31, 2019 and 2018 were nil and RUB 25,723 million, respectively.

In 2016, the Group signed restructuring agreements and amicable settlements agreement approved by the courts with Sberbank and, in April 2017, Sberbank confirmed the restructuring terms under the relevant credit facilities including an extension of the repayment grace period until 2020 and the final maturity until 2022 and annual interest rate at the level of

[2] Cash flows arising from settlement of VTB credit facilities were disclosed on a gross basis (as cash inflows and cash outflows within financing activities in the amount of RUB 5,000 million for the years ended December 31, 2019, 2018 and 2017). All payments under the credit facility issued to Mechel PAO are made upon receipt of the respective proceeds from VTB under the credit facility issued to CMP.

the key rate of the Central Bank of the Russian Federation plus 1.5% for the ruble-denominated credit facilities and 3M LIBOR plus 7% for the U.S. dollar-denominated credit facilities.

In November 2019, all the U.S. dollar-denominated credit facilities of SKCC, excluding interest payable for the amount of RUB 370 million ($5,984 thousand at exchange rate as of December 31, 2019), were transferred from Sberbank to VTB according to the assignment agreement between Sberbank and VTB, the terms and conditions remained the same in the assigned agreement.

The outstanding balances of the U.S. dollar-denominated facilities as of December 31, 2019 and 2018 were nil and RUB 23,147 million ($333,198 thousand at exchange rate as of December 31, 2018), respectively. As of December 31, 2019 and 2018, there were no overdue principal amount and overdue interest on the Sberbank credit facilities.

(e) VEB facility

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

The Elgaugol's outstanding balances under VEB credit facility as of December 31, 2019 and 2018 were RUB 7,000 million ($113,069 thousand at exchange rate as of December 31, 2019) and RUB 8,794 million ($126,583 thousand at exchange rate as of December 31, 2018), respectively, bearing interest at 5.5% p.a.

As of December 31, 2019 and 2018, there were no overdue principal amount and overdue interest on the VEB credit facilities. The use of proceeds under the facility is limited to the development of the Elga coal project.

(f) 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 with maturity dates between February 2020 - July 2021. The range of coupon interest rate as of December 31, 2019 varies from 8.0% p.a. to 11.9% p.a.

(g) Other loans

Other loans represent the Russian ruble, U.S. dollar and euro-denominated long-term and short-term loans bearing interest at 0.8%-10.9% p.a. The outstanding balance under other loan agreements amounted to RUB 31,258 million and RUB 41,887 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, the Group's overdue principal amount and overdue interest on other loans amounted to RUB 25,354 million and RUB 1,563 million, respectively, as of December 31, 2018 – RUB 25,209 million and RUB 1,726 million, respectively. The fines and penalties on overdue amounts of RUB 2,097 million and RUB 1,622 million were recorded in loans and borrowings in the consolidated statement of financial position as of December 31, 2019 and 2018, respectively. The fines and penalties in the amount of RUB 733 million, RUB 858 million and RUB 1,038 million were recorded as finance costs in the consolidated statements of profit (loss) and other comprehensive income for the year ended December 31, 2019, 2018 and 2017, respectively.

In 2010-2017, the Group signed revolving credit agreements for working capital financing up to RUB 4,512 million with several banks. These revolving credit lines allow the Group to withdraw, repay and re-draw in the agreed amounts, timing and number of times until the arrangement expires. Borrowings bear interest at 5.3-7.0% p.a.

(h) Pledges

In order to secure bank financings, the Group pledged shares in certain key subsidiaries, including 100% of Yakutugol, 95% + 3 shares of SKCC, 91.66% of shares of CMP, 50% + 2 shares of common shares of BMP, 80% + 2 shares of KMP, 87.5%+3 shares of Mechel Mining, 75% + 2 shares of USP, 25% + 1 share of Izhstal, 25% + 1 share of Port Posiet, 50.99% of registered capital of Elgaugol, 25% of registered capital of Mecheltrans, 100% of registered capital of Fincom-invest OOO, 25% of registered capital of BFP, 25% of registered capital of Port Temryuk, 1.99% of registered capital of Mecheltrans Vostok OOO, 1.99% of registered capital of Elga-road as of December 31, 2019.

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

As of December 31, 2019 and 2018, the carrying value of property, plant and equipment pledged under the loan agreements amounted to RUB 116,717 million and RUB 117,370 million, respectively (Note 15). Carrying value of inventories pledged under the loan agreements amounted to RUB 2,931 million and RUB 3,472 million as of December 31, 2019 and 2018, respectively. Accounts receivable pledged as of December 31, 2019 and 2018 amounted to RUB 179 million and RUB 1,044 million, respectively. Additionally, CMP pledged its rights to receive future payments (revenue) related to the contract with Russian Railways JSC in the amount of RUB 6,191 million ($100 million).[3]

(i) Covenants

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

The Group was required to comply with the following ratios under the most significant loan agreements with the Russian state-controlled banks as of December 31, 2019[4]:

Restrictive covenants	Requirement	Actual as of December 31, 2019
Group's EBITDA to Net Interest Expense	Shall not be less than 2.0:1.0	1.36:1.0
Group's EBITDA to Consolidated Financial Expense	Shall not be less than 2.0:1.0	1.40:1.0
Group's Net Debt to EBITDA	Shall not exceed 6.0:1.0	8.85:1.0
Group 's Total Debt to EBITDA	Shall not exceed 3.5:1.0	8.51:1.0
Group 's Cash flow from operating activities to EBITDA	Shall not be less than 0.8:1.0	1.08:1.0
Group 's EBITDA to Revenue	Shall not be less than 0.2:1.0	0.18:1.0

As of December 31, 2019, the Group was not in compliance with all major covenants set by the loan agreements with the Russian state-controlled banks, except for the Cash flow from operating activities to EBITDA. Also, the Group was not in compliance with covenants contained in the loan agreements with foreign banks (such as Net Borrowings to EBITDA ratio, EBITDA to Net Interest Expense ratio and targeted amount of Adjusted Shareholder's Equity). There was a default on payments of principal and interest in the amount of RUB 25,354 million and RUB 1,563 million, respectively, which is represented primarily by ECA-covered loans (represented by the credit facilities of BNP, ING, NatWest, Deutsche Bank AG and other international banks). As a result, the long-term debt of RUB 220,046 million was reclassified to short-term liabilities as of December 31, 2019.

10.2 Financial instruments risk management objectives and policies

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

Liquidity risk

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

As of December 31, 2019, 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.

[3] CMP's accounts receivable from Russian Railways JSC as of December 31, 2019 amounted to RUB 695 million.
[4] Net Debt and Total Debt are calculated according to the respective definitions set by the credit agreements. Generally, Total Debt includes outstanding loans, lease, bonds and other finance liability balances; Net Debt is equal to Total Debt less cash and cash equivalents.

(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, 2019							
Loans and borrowings, including interest payable	373,799	7,998	5,024	2,325	14	70	**389,230**
Lease liabilities	8,802	3,992	3,122	1,230	643	12,515	**30,304**
Trade and other payables	20,210	14,642	–	–	–	–	**34,852**
Other financial liabilities	–	–	54,450	38	38	19	**54,545**

	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, 2018							
Loans and borrowings, including interest payable	406,337	7,185	4,520	2,550	16	119	**420,727**
Lease liabilities	1,664	5,186	908	886	745	350	**9,739**
Trade and other payables	15,891	15,270	352	186	16	–	**31,715**
Other financial liabilities	–	–	–	55,742	–	–	**55,742**

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 12)) 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 12).

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

	December 31, 2019	**December 31, 2018**
Restricted cash (excluding cash on hand)	147	51
Cash deposits	1,074	494
Trade and other receivables	15,442	17,718
Other financial assets	382	533
- Promissory notes	*–*	*212*
- Loans issued	*368*	*305*
- Bonds	*14*	*16*
Total	**17,045**	**18,796**

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

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.

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 26% of the Group's sales are denominated in U.S. dollars and 11% of the Group's sales are denominated in euro, 13% of the Group's borrowings are denominated in U.S. dollars and 22% 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, 2019**	**December 31, 2018**
Current assets	**639**	**157**
Trade and other receivables	172	27
Cash and cash equivalents	467	130
Non-current liabilities	**(4,667)**	–
Loans and borrowings	(4,667)	–
Current liabilities	**(41,047)**	**(54,954)**
Loans and borrowings	(38,861)	(51,732)
Trade and other payables	(2,186)	(3,222)

Assets and liabilities denominated in euro	**December 31, 2019**	**December 31, 2018**
Current assets	**171**	**812**
Trade and other receivables	63	510
Cash and cash equivalents	108	302
Non-current liabilities	**(148)**	**(219)**
Lease liabilities	(148)	(219)
Current liabilities	**(88,794)**	**(101,294)**
Loans and borrowings	(86,213)	(98,285)
Trade and other payables	(2,499)	(2,953)
Lease liabilities	(82)	(56)

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

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
2017	+10%	(11,785)	+10%	(2,674)
	-10%	11,785	-10%	2,674
2018	+14%	(7,672)	+14%	(14,098)
	-14%	7,672	-14%	14,098
2019	+13%	(5,860)	+13%	(11,540)
	-11%	4,958	-11%	9,765

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, 2019 and 2018, the share of the borrowings with floating rates in the total amount of the borrowings were 97% (incl. key rate of the Central Bank of the Russian Federation – 65%, LIBOR, EURIBOR and other – 32%) and 95% (incl. key rate of the Central Bank of the Russian Federation – 62%, LIBOR, EURIBOR and other – 33%), 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 (%)	Effect ((decrease)/ increase) on profit before tax	Increase/ decrease in LIBOR (%)	Effect ((decrease)/ increase) on profit before tax	Increase/ decrease in EURIBOR (%)	Effect ((decrease)/ increase) on profit before tax
2017	+1.00%	(2,744)	+0.48%	(500)	+0.04%	(8)
	-2.00%	5,488	-0.24%	250	-0.08%	16
2018	+0.75%	(1,922)	+0.50%	(226)	+0.20%	(190)
	-1.00%	2,563	-0.15%	68	-0.01%	9
2019	+1.25%	(3,116)	+0.35%	(145)	+0.15%	(126)
	-1.25%	3,116	-0.35%	145	-0.15%	126

10.3 Other current financial assets

In November 2011, the owners of the metallurgical plants (refer to Note 8(a)) and the Group entered into a loan agreement pursuant to which a loan of $944,530 thousand (RUB 28,433 million at exchange rate as of November 10, 2011) was granted by the Group. The loan consists of several tranches which bear interest at the range of 1-8.5% p.a. To secure the loan, shares in the major metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the metallurgical plants to repay most of the accounts receivable owed to the Group. According to the loan agreement, in the event that the loan is not repaid at maturity (September 30, 2012), the Group was entitled to enforce the pledge over the pledged metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service. The Group has not taken possession of assets provided as collateral because these entities are under the bankruptcy procedure and burdened with substantial amount of debt.

The Group evaluates the recoverability of the loan based on the fair value of the pledged assets. As of December 31, 2019, 2018 and 2017, this loan in the amount of RUB 7,992 million, RUB 10,240 million and RUB 9,800 million, respectively, was fully provided for as the fair value of the pledged assets was nil as at these dates.

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

In 2019, this loan was partially written off in the amount of $34,929 thousand (RUB 2,250 million at the dates of transactions) due to liquidation of certain debtors.

10.4 Other non-current financial liabilities

The Group recognised other non-current financial liabilities under the put option of Gazprombank in the amount of RUB 48,201 million as of December 31, 2019 and RUB 44,056 million as of December 31, 2018 (estimated at the present value of the consideration to be transferred upon the exercise of the put option discounted at the key rate of the Central Bank of the Russian Federation plus 2%). The respective finance cost was recognised in the consolidated statement of profit (loss) and other comprehensive income in the amount of RUB 4,145 million, RUB 3,796 million and RUB 4,062 million for 2019, 2018 and 2017, respectively (Note 24.4).

On August 23, 2019, the Group received the offer from Gazprombank to acquire a 34% stake in the Elga coal complex. The offer expired on January 20, 2020 and the Group did not exercise its preemptive right under the offer. Gazprombank still has put option 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 the put option agreement signed in 2016.

10.5 Other current financial liabilities

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

At the date of the call option agreement, the Group recognised 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.

On August 10, 2018, VTB notified the Group of its decision to exercise the option and receive cash of RUB 442 million. On August 22, 2018, RUB 442 million has been paid by the Group in full.

10.6 Leases

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 presents right-of-use assets within property, plant and equipment in the consolidated statement of financial position.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land	Buildings and constructions	Operating machinery and equipment	Transportation vehicles	Total
At January 1, 2019	–	–	**643**	**9,469**	**10,112**
Adjustment on initial application of IFRS 16	1,932	681	73	12	**2,698**
Additions	200	541	405	7,401	**8,547**
Depreciation charge	(72)	(138)	(204)	(2,587)	**(3,001)**
Disposals	(9)	–	(6)	(2)	**(17)**
Impairment	(72)	–	(19)	(363)	**(454)**
Transfer to own property, plant and equipment	–	–	(114)	(1)	**(115)**
Exchange differences	(1)	(23)	(15)	(3)	**(42)**
At December, 31 2019	**1,978**	**1,061**	**763**	**13,926**	**17,728**

The Group presents lease liabilities separately from other liabilities in the consolidated statement of financial position.

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

The following amounts related to the lease were recognised for the reporting period:

	2019
The maturity analysis of lease liabilities	Note 10.2
The cash flow effect of sale and leaseback transactions (net increase, consolidated statement of cash flows)	248
Interest expense on lease liabilities (Note 24.4)	1,409
Expense relating to short-term leases	1,536
Commitments for short-term leases as of December 31	62
The total cash outflow for leases	5,404

The Group's lease contracts contain a number of restrictions, which included but not limited to, overdue principal and cross-default provisions. As of December 31, 2019 and 2018, the Group was not in compliance with the payment schedules under certain lease contracts and the Group's loan agreements. As a result, the related long-term lease liabilities of RUB 5,480 million and RUB 1,320 million were reclassified to short-term lease liabilities due to covenant violations as of December 31, 2019 and 2018, respectively.

In June 2019, the Group has extended a contract for lease of railway carriages until July 2021 resulting in addition to right-of-use assets and lease liabilities recognised in the amount of RUB 4,862 million. Until May 2019, the contract for lease of these railway carriages was short-term and contract expense was recognised within expense relating to short-term leases.

The Group has lease contracts that have not yet commenced as of December 31, 2019 with the future lease payments of RUB 45 million within one year, RUB 110 million within five years and RUB 1 million thereafter.

11. Inventories

	December 31, 2019	December 31, 2018
Raw materials	13,643	14,980
Work in progress	8,565	8,681
Finished goods and goods for resale	17,565	19,762
Total inventories at the lower of cost and net realisable value	**39,773**	**43,423**

During 2019, RUB 1,763 million (2018: RUB 1,162 million, 2017: RUB 470 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 93,837 million for 2019 (2018: RUB 115,126 million, 2017: RUB 102,613 million).

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

12. Trade and other receivables

	December 31, 2019	December 31, 2018
Trade receivables, including from contracts with	21,262	24,039
- domestic customers	*18,251*	*19,037*
- foreign customers	*3,011*	*5,002*
Less allowance for expected credit losses on trade receivables	(6,200)	(6,749)
Total trade receivables, net	**15,062**	**17,290**
Other receivables	2,933	3,410
Less allowance for expected credit losses on other receivables	(2,655)	(3,088)
Total other receivables, net	**278**	**322**
Total accounts receivable, net	**15,340**	**17,612**

Set out below is the information about the credit risk exposure on the Group's trade receivables by ageing as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Trade receivables	Expected credit losses	Trade receivables	Expected credit losses
Current	11,907	(169)	14,734	(659)
=<30 days	2,154	(59)	2,178	(106)
31-60 days	504	(99)	497	(62)
61-90 days	355	(126)	199	(57)
91-180 days	444	(134)	334	(142)
181-365 days	659	(565)	579	(377)
>1 year	5,239	(5,048)	5,518	(5,346)
Total trade receivables	**21,262**	**(6,200)**	**24,039**	**(6,749)**

The Group does not hold any collateral over these balances.

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

	Total
At December 31, 2016	**(33,941)**
Charge for the year	(343)
Utilised amounts	603
Reclassified to non-current financial assets (Note 8)	24,391
Exchange rate difference	207
At December 31, 2017	**(9,083)**
Charge for the year	(791)
Utilised amounts	575
Exchange rate difference	(538)
At December 31, 2018	**(9,837)**
Charge for the year	(226)
Utilised amounts	800
Exchange rate difference	408
At December 31, 2019	**(8,855)**

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

13. Other current and non-current assets

	December 31, 2019	December 31, 2018
Other current assets		
Prepayments and advances	2,930	4,778
Input VAT and other taxes recoverable	3,970	3,758
Other current assets	82	137
Total prepayments and other current assets	**6,982**	**8,673**

	December 31, 2019	December 31, 2018
Other non-current assets		
Deferred assets from sale and lease back	208	241
Other non-current assets	345	389
Total other non-current assets	**553**	**630**

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

14. Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	6	8
Cash at banks, including		
- in Russian rubles	*1,715*	*360*
- in U.S. dollars	*1,081*	*766*
- in euro	*640*	*596*
- in other currencies	*160*	*164*
Total cash and cash equivalents	**3,602**	**1,894**
Less allowance for expected credit losses	*(93)*	*(91)*
Total cash and cash equivalents, net	**3,509**	**1,803**

For the purpose of the consolidated statement of cash flows, bank overdrafts are deducted from cash and cash equivalents in the amount of RUB 642 million and RUB 1,423 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Group had short-term deposits included in cash at banks of RUB 1,074 million and RUB 494 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	Deferred payments for acquisition of assets	Effect of sale and leaseback transactions	Put option of Gazprombank	Other current financial liabilities	Deferred consideration paid for the acquisition of subsidiaries in prior periods
At December 31, 2016	**445,809**	**10,596**	**1,052**	–	**36,198**	–	**8,032**
Cash flows	(42,480)	(4,801)	(455)	–	–	–	(3,652)
Foreign exchange movement	(3,942)	(67)	–	–	–	–	(370)
Changes in fair value	–	–	–	–	–	(81)	–
Other changes, including interest	40,506	3,626	1,083	–	4,062	815	–
At December 31, 2017	**439,893**	**9,354**	**1,680**	–	**40,260**	**734**	**4,010**
Cash flows	(52,951)	(3,892)	(629)	–	–	(442)	(3,968)
Foreign exchange movement	24,167	83	–	–	–	–	339
Changes in fair value	–	–	–	–	–	(292)	–
Other changes, including interest	7,723	2,748	379	–	3,796	–	–
At December 31, 2018	**418,832**	**8,293**	**1,430**	–	**44,056**	–	**381**
Cash flows	(42,831)	(3,488)	(341)	234	–	–	(361)
Foreign exchange movement	(17,636)	(38)	–	–	–	–	(20)
Other changes, including interest	30,157	12,588	62	14	4,145	–	–
At December 31, 2019	**388,522**	**17,355**	**1,151**	**248**	**48,201**	–	–

The table above does not include dividends paid of RUB 1,531 million, RUB 1,394 million and RUB 978 million, acquisition of non-controlling interests in subsidiaries of RUB nil million, RUB nil million and RUB 3,358 million and fines and penalties on overdue leases of RUB 39 million, RUB 10 million and RUB 13 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The amounts presented in other changes are primarily attributable to interest accrued of RUB 33,159 million, RUB 36,660 million and RUB 41,528 million for the years ended December 31, 2019, 2018 and 2017, respectively (Note 24.4), new lease agreements of RUB 11,234 million (including effect of adoption of IFRS 16 in the amount of RUB 3,259 million), RUB 1,675 million and RUB 2,295 million for the years ended December 31, 2019, 2018 and 2017, respectively, and effect of restructuring of loans of RUB 25 million, RUB 33,514 million and RUB 264 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

15. Property, plant and equipment

	Land	Buildings and constructions	Operating machinery and equipment	Trans-portation vehicles	Other equipment	Construction-in-progress	Mining plant and equipment	Railway Ulak-Elga	Total
Cost									
At December 31, 2016 ...	**3,049**	**77,659**	**114,328**	**29,291**	**822**	**21,134**	**15,100**	**74,791**	**336,174**
Additions	6	363	1,531	3,124	45	5,767	1,576	–	**12,412**
Change in rehabilitation provision......................	–	141	–	–	–	–	(58)	–	**83**
Transfers..........................	–	2,934	3,360	190	148	(7,011)	362	17	**-**
Disposals	(12)	(432)	(1,713)	(1,795)	(28)	(245)	(3)	–	**(4,228)**
Exchange differences	52	148	132	21	9	–	–	–	**362**
At December 31, 2017 ...	**3,095**	**80,813**	**117,638**	**30,831**	**996**	**19,645**	**16,977**	**74,808**	**344,803**
Additions	9	10	2,423	2,048	83	6,851	50	–	**11,474**
Change in rehabilitation provision......................	–	(187)	–	–	–	–	(102)	–	**(289)**
Transfers..........................	1	487	2,750	251	97	(4,099)	119	394	–
Disposals	(255)	(649)	(1,734)	(1,410)	(32)	(509)	(136)	–	**(4,725)**
Exchange differences	91	277	251	40	28	–	–	–	**687**
At December 31, 2018 ...	**2,941**	**80,751**	**121,328**	**31,760**	**1,172**	**21,888**	**16,908**	**75,202**	**351,950**
Adjustment on initial application of IFRS16 ..	2,488	686	73	12	–	–	–	–	**3,259**
Additions	200	568	1,585	7,683	33	7,332	38	–	**17,439**
Change in rehabilitation provision......................	–	456	–	–	–	–	707	–	**1,163**
Transfers..........................	(9)	2,606	3,176	262	21	(6,752)	(26)	722	–
Disposals	(36)	(241)	(2,415)	(2,159)	(33)	(990)	–	–	**(5,874)**
Exchange differences	(86)	(289)	(240)	(37)	(30)	(2)	–	–	**(684)**
At December 31, 2019 ...	**5,498**	**84,537**	**123,507**	**37,521**	**1,163**	**21,476**	**17,627**	**75,924**	**367,253**
Depreciation and impairment									
At December 31, 2016 ...	**(251)**	**(35,905)**	**(72,899)**	**(16,769)**	**(733)**	**(1,582)**	**(3,101)**	**(581)**	**(131,821)**
Depreciation charge.........	–	(3,747)	(7,315)	(2,222)	(72)	–	(245)	(235)	**(13,836)**
Disposals	–	302	1,611	1,720	22	127	1	7	**3,790**
Reversal of impairment/ (impairment)................	(37)	(876)	(2,174)	(454)	(5)	(278)	(1,067)	–	**(4,891)**
Exchange differences	(4)	(49)	(95)	(13)	(9)	–	–	–	**(170)**
At December 31, 2017 ...	**(292)**	**(40,275)**	**(80,872)**	**(17,738)**	**(797)**	**(1,733)**	**(4,412)**	**(809)**	**(146,928)**
Depreciation charge.........	–	(3,550)	(7,273)	(2,253)	(99)	–	(180)	(279)	**(13,634)**
Disposals	223	287	1,593	1,317	50	47	170	–	**3,687**
Impairment	(43)	(319)	(1,065)	(709)	(15)	(536)	(2,153)	–	**(4,840)**
Exchange differences	(3)	(110)	(191)	(28)	(24)	–	–	–	**(356)**
At December 31, 2018 ...	**(115)**	**(43,967)**	**(87,808)**	**(19,411)**	**(885)**	**(2,222)**	**(6,575)**	**(1,088)**	**(162,071)**
Adjustment on initial application of IFRS16	(556)	(5)	–	–	–	–	–	–	**(561)**
Depreciation charge.........	(72)	(2,919)	(6,968)	(3,469)	(53)	–	(186)	(295)	**(13,962)**
Disposals	25	194	2,237	2,108	21	30			**4,615**
Reversal of impairment/ (impairment)................	(36)	615	1,495	(415)	10	(310)	(18)	–	**1,341**
Exchange differences	4	117	194	39	23	–	–	–	**377**
At December 31, 2019 ...	**(750)**	**(45,965)**	**(90,850)**	**(21,148)**	**(884)**	**(2,502)**	**(6,779)**	**(1,383)**	**(170,261)**
Net book value									
At December 31, 2016 ...	**2,798**	**41,754**	**41,429**	**12,522**	**89**	**19,552**	**11,999**	**74,210**	**204,353**
At December 31, 2017 ...	**2,803**	**40,538**	**36,766**	**13,093**	**199**	**17,912**	**12,565**	**73,999**	**197,875**
At December 31, 2018 ...	**2,826**	**36,784**	**33,520**	**12,349**	**287**	**19,666**	**10,333**	**74,114**	**189,879**
At December 31, 2019 ...	**4,748**	**38,572**	**32,657**	**16,373**	**279**	**18,974**	**10,848**	**74,541**	**196,992**

According to the results of the impairment analysis of non-current assets, gain from reversal of impairment of RUB 1,341 million and impairment losses of RUB 4,840 million and RUB 4,891 million were recognised by the Group for the years ended December 31, 2019, 2018 and 2017, respectively (Note 17).

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

Property, plant and equipment other than right-of-use assets

	Land	Buildings and constructions	Operating machinery and equipment	Trans-portation vehicles	Other equipment	Construction-in-progress	Mining plant and equipment	Railway Ulak-Elga	Total
Cost									
At December 31, 2018	**2,941**	**80,751**	**119,583**	**17,203**	**1,172**	**21,888**	**16,908**	**75,202**	**335,648**
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	(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**
Depreciation and impairment									
At December 31, 2018	**(115)**	**(43,967)**	**(86,706)**	**(14,323)**	**(885)**	**(2,222)**	**(6,575)**	**(1,088)**	**(155,881)**
Depreciation charge	–	(2,781)	(6,764)	(882)	(53)	–	(186)	(295)	**(10,961)**
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	615	1,514	(52)	10	(310)	(18)	–	**1,795**
Exchange differences	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)**
Net book value									
At December 31, 2018	**2,826**	**36,784**	**32,877**	**2,880**	**287**	**19,666**	**10,333**	**74,114**	**179,767**
At December 31, 2019	**2,770**	**37,511**	**31,894**	**2,447**	**279**	**18,974**	**10,848**	**74,541**	**179,264**

Assets under construction

As of December 31, 2019 and 2018, construction-in-progress included advances issued for acquisition of property, plant and equipment in the amounts of RUB 277 million and RUB 547 million, respectively.

Property pledged to the banks as security

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

	December 31, 2019	December 31, 2018
Net book value	116,717	117,370

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended December 31, 2019 was RUB 309 million (2018: RUB 492 million, 2017: RUB 621 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 8.57% (2018: 8.55%, 2017: 9.70 %), which is the average rate of the eligible borrowings.

Contractual commitments

As of December 31, 2019 and 2018, the total Group's contractual commitments to acquire property, plant and equipment excluding VAT amounted to RUB 10,506 million and RUB 11,801 million, respectively.

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

16. Intangible assets

	Goodwill	Mineral licenses	Other intangible assets
Cost			
At December 31, 2016	**32,902**	**55,783**	**–**
Additions	–	–	880
Disposal	–	(165)	–
Exchange differences	(24)	–	–
At December 31, 2017	**32,878**	**55,618**	**880**
Additions	–	–	–
Disposal	–	–	–
Exchange differences	90	–	–
At December 31, 2018	**32,968**	**55,618**	**880**
Additions			
Disposal			
Exchange differences	(57)		
At December 31, 2019	**32,911**	**55,618**	**880**
Amortisation and impairment			
At December 31, 2016	**(14,547)**	**(19,684)**	**–**
Impairment	–	(1,190)	–
Amortisation	–	(1,504)	–
At December 31, 2017	**(14,547)**	**(22,378)**	**–**
Impairment	(2,382)	–	–
Amortisation	–	(1,172)	(36)
Disposal	–	–	–
Exchange differences	–	–	–
At December 31, 2018	**(16,929)**	**(23,550)**	**(36)**
Impairment	(3,139)	(6)	–
Amortisation	–	(987)	(35)
Disposal	–	–	–
Exchange differences	–	–	–
At December 31, 2019	**(20,068)**	**(24,543)**	**(71)**
Net book value			
At December 31, 2016	**18,355**	**36,099**	**–**
At December 31, 2017	**18,331**	**33,240**	**880**
At December 31, 2018	**16,039**	**32,068**	**844**
At December 31, 2019	**12,843**	**31,075**	**809**

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

As of December 31, 2019 and 2018, the Group performed an impairment analysis of goodwill (Note 17).

As of December 31, 2019 and 2018, the total Group's contractual commitments to acquire intangible assets excluding VAT amounted to nil and RUB 110 million, respectively.

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

17. Impairment of goodwill and other non-current assets

As of December 31, 2019 and 2018, the Group performed an impairment analysis of goodwill and other non-current assets at the level of cash generating units (CGU). The Group considers the relationship between market capitalization and its book value, among other factors, when reviewing for indicators of impairment. Goodwill acquired through business combinations has been allocated to CGUs for impairment testing as follows (before impairment write-downs):

		Goodwill	
Cash generating units	**Segment**	**December 31, 2019**	**December 31, 2018**
Yakutugol	Mining	13,399	13,399
Kuzbass Power Sales Company	Power	1,026	1,026
Port Posiet	Mining	756	756
Chelyabinsk Metallurgical Plant	Steel	589	646
Southern Kuzbass Coal Company	Mining	143	143
Port Temryuk	Mining	69	69
Southern Kuzbass Power Plant	Power	-	2,382
Total		**15,982**	**18,421**

As of December 31, 2019 and 2018, the recoverable amount of CGUs was determined based on value in use except for one CGU with the recoverable amount determined as fair value less cost to sell. Inflation and discount rates, range of discount rates, estimated for each year for the forecasted period, were as follows:

	Forecast period, years				
For the year ended December 31, 2018	**2019**	**2020**	**2021**	**2022**	**2023**
Inflation rate in Russia	5.0%	4.3%	3.8%	4.0%	4.0%
Inflation rate in European countries	3.3%	3.3%	3.1%	3.1%	3.0%
Pre-tax discount rate, %	11.10%-23.60%	11.10%-23.60%	11.10%-23.60%	11.10%-23.60%	11.10%-23.60%

For the year ended December 31, 2019	**2020**	**2021**	**2022**	**2023**	**2024**
Inflation rate in Russia	3.7%	3.4%	3.8%	3.8%	3.8%
Inflation rate in European countries	3.1%	2.7%	2.8%	2.8%	2.9%
Pre-tax discount rate, %	10.0%-14.9%	10.0%-14.9%	10.0%-14.9%	10.0%-14.9%	10.0%-14.9%

As of December 31, 2019, the Group performed the impairment testing for the following number of CGUs by segments: Steel – 3, Mining – 6 and Power – 2.

Impairment of goodwill

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 at December 31, 2019**
Yakutugol	3,139
Total	**3,139**

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

Goodwill at Yakutugol was impaired in the amount of RUB 3,139 as of December 31, 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.

According to the results of the impairment analysis of goodwill, an impairment loss as of December 31, 2018 was recognised in the following CGU:

Cash generating units	**Impairment loss on goodwill at December 31, 2018**
Southern Kuzbass Power Plant (SKPP)	2,382
Total	**2,382**

Goodwill at SKPP was written down from RUB 2,382 million to nil as of December 31, 2018 due to the breakdown of generating equipment and increased raw materials cost, that led to the increased idle and maintenance costs and reduced generating capacity forecasts.

According to the results of the impairment analysis of goodwill, no impairment loss as of December 31, 2017 was recognized.

Impairment of non-current assets

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

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

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 and mineral licenses of BFP was RUB 702 million. Estimated future cash flows remained negative at KMP therefore property, plant and equipment 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**

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

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 of Izhstal was RUB 4,199 million.

According to the results of the impairment analysis, impairment of non-current assets was identified for the following CGUs as of December 31, 2018:

Cash generating units	**Impairment loss on non-current assets identified as a result of impairment tests at December 31, 2018**
Korshunov Mining Plant (KMP)	1,151
Izhstal	781
Southern Kuzbass Power Plant (SKPP)	337
Total	**2,269**

The carrying value of property, plant and equipment at KMP was written down to nil as of December 31, 2017. However, during 2018, new non-current assets were acquired for the purpose to maintain production volumes in accordance with the license agreement obligations. As of December 31, 2018, estimated future cash flows remain negative due to high transportation cost per tonne and significant costs of large-scale stripping works in order to fulfil required level of extraction. Therefore, an additional impairment of property, plant and equipment at KMP of RUB 1,151 million was recognised as of December 31, 2018.

Impairment of property, plant and equipment at Izhstal of RUB 781 million was caused by the shift of production technology to casting own steel instead of acquiring billets, increased projected cost of purchased scrap metal and continued growth in long-term production costs. The remaining carrying value of the property, plant and equipment of Izhstal was RUB 1,799 million.

Impairment of non-current assets at SKPP of RUB 337 million represents the remaining loss allocated after the reduction of carrying value of goodwill at SKPP as described above. The remaining carrying value of the property, plant and equipment of SKPP was RUB 1,889 million.

Carrying value of individual items of the non-current assets for the respective entities including the underground mining workings at SKCC was impaired due to changes in the Group’s management plans to invest funds into the ongoing construction projects and, as a result, the inability of these assets to generate future economic benefits in the current market conditions:

Subsidiaries	**Impairment loss on non-current assets identified for individual items of assets at December 31, 2018**
Southern Kuzbass Coal Company (SKCC)	2,533
Other	38
Total	**2,571**

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

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

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

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

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

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

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, 2019, a 5% decrease in future planned revenues would trigger impairment of goodwill, property, plant and equipment, mineral licenses and other intangible assets of RUB 17,693 million at SKCC, additional impairment of goodwill of RUB 8,283 million at Yakutugol, additional impairment of property, plant and equipment and mineral licenses at BFP of 702 RUB million, and a 1% increase in discount rate would lead to additional impairment of goodwill of RUB 1,606 million at Yakutugol. Decrease in selling prices for steel products by 3.3% would lead to reduction of gain from reversal of previously recognised impairment loss at Izhstal, at a 5.5% decrease in selling prices for steel products gain from reversal of previously recognized impairment loss at Izhstal would decrease to nil.

For the cash-generating units, which were not impaired in the reporting period and for which the reasonably possible changes could lead to impairment, the recoverable amounts would become equal to their carrying amounts if the assumptions used to measure the recoverable amounts changed by the following percentages: decrease in sales prices by 1.3% and 2.5% at SKCC and SKPP, respectively. The recoverable amounts of SKCC and SKPP based on initial key assumptions exceed the carrying amounts by RUB 6,436 million and RUB 1,390 million, respectively.

Reasonably possible changes in other key assumptions used in assessing recoverable amount of CGUs as of December 31, 2019 do not lead to excess of carrying value over recoverable amount.

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

18. Trade and other payables

	December 31, 2019	December 31, 2018
Trade payables	27,806	24,288
Other payables	10,585	10,512
Total trade and other payables	**38,391**	**34,800**

Other payables include accruals for fines and penalties, payables for property, plant and equipment acquired, salaries payable, dividends payable and other.

	December 31, 2019	December 31, 2018
Other payables		
Wages and salaries payable and other related obligations	3,538	3,425
Accounts payable for property, plant and equipment	3,164	2,600
Dividends payable, common shares	136	146
Dividends payable, preferred shares	80	86
Other	3,667	4,255
Total	**10, 585**	**10,512**

19. Income tax

The major components of income tax expense for the years ended December 31, 2019, 2018 and 2017 are:

Recognised in profit or loss	**2019**	**2018**	**2017**
Current income tax			
Current income tax charge	(2,981)	(2,315)	(3,397)
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position	(2,718)	(2,962)	(3,154)
Deferred tax			
Relating to origination and reversal of temporary differences	(2,288)	2,596	3,401
Income tax expense reported in the consolidated statement of profit (loss) and other comprehensive income	**(7,987)**	**(2,681)**	**(3,150)**

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, 2019, 2018 and 2017. In 2016-2019, 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 2017-2019, income tax was calculated at 20% of taxable profit in Russia and Kazakhstan, and at 25% in Austria. Income tax in Germany was calculated at 32.81%, 32.10% and 32.10% for 2017, 2018 and 2019. Amendments in the tax legislation Switzerland resulted in the increase in tax rate from 10.5%-11% to 13% since January 1, 2020.

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

(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:

	2019	2018	2017
Profit before tax from continuing operations	**12,272**	**16,217**	**15,720**
Income tax expense at statutory income tax rate of 20%	**(2,454)**	**(3,243)**	**(3,144)**
Adjustments:			
Adjustments in respect of income tax, including income tax penalties and changes in uncertain income tax position.	(2,718)	(2,962)	(3,154)
Unrecognised current year tax losses and write-off of previously recognised asset on tax losses	(1,277)	4,008	4,783
Non-deductible expenses for tax purposes	(1,347)	(3,625)	(1,755)
Non-deductible interest expense	(229)	(363)	(254)
Effect of restructuring and expense related to fines and penalties on breach of covenants in credit agreements	–	3,460	112
Effect of different tax rates	155	(12)	262
Change in tax rate	(117)	56	–
At the effective income tax rate of 65.1% (16.5% in 2018, 20.0% in 2017) income tax expense reported in the consolidated statement of profit (loss) and other comprehensive income	**(7,987)**	**(2,681)**	**(3,150)**

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, 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	Foreign currency translation effect	December 31, 2019
Deferred tax assets						
Property, plant and equipment	386	(86)	300	386	–	686
Rehabilitation provision	773	–	773	295	–	1,068
Inventory	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
Net operating loss carry-forwards	13,623	–	13,623	(3,210)	(10)	10,403
Other	74	–	74	40	(3)	111
Deferred tax liabilities						
Property, plant and equipment	(15,468)	(537)	(16,005)	(1,830)	30	(17,805)
Mineral licenses	(6,376)	–	(6,376)	235	–	(6,141)
Inventory	(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)**

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

	January 1, 2018	Adjustment on initial application of IFRS 9	January 1, 2018 adjusted for the effect of IFRS 9	Tax (expense) benefit during the period recognised in profit or loss	Foreign currency translation effect	December 31, 2018
Deferred tax assets						
Property, plant and equipment	759	–	759	(373)	–	386
Rehabilitation provision	802	–	802	(29)	–	773
Inventory	179	–	179	1,537	–	1,716
Trade and other receivables	735	–	735	52	3	790
Loans and borrowings	313	822	1,135	(815)	–	320
Lease liabilities	983	–	983	(141)	1	843
Trade and other payables and other liabilities	656	–	656	213	–	869
Net operating loss carry-forwards	7,972	–	7,972	5,646	5	13,623
Other	86	–	86	(15)	3	74
Deferred tax liabilities						
Property, plant and equipment	(15,869)	–	(15,869)	429	(28)	(15,468)
Mineral licenses	(6,652)		(6,652)	276	–	(6,376)
Inventory	(801)	–	(801)	(28)	(5)	(834)
Trade and other receivables	(330)	–	(330)	(160)	(9)	(499)
Loans and borrowings	(112)	50	(62)	(3,835)	(1)	(3,898)
Trade and other payables and other liabilities	(119)	–	(119)	(161)	(57)	(337)
Deferred tax assets (liabilities), net	**(11,398)**	**872**	**(10,526)**	**2,596**	**(88)**	**(8,018)**

	January 1, 2017	Tax benefit (expense) during the period recognised in profit or loss	Foreign currency translation effect	December 31, 2017
Deferred tax assets				
Property, plant and equipment	677	81	1	759
Rehabilitation provision	694	108	–	802
Inventory	193	(9)	(5)	179
Trade and other receivables	831	(92)	(4)	735
Loans and borrowings	118	195	–	313
Lease liabilities	1,121	(138)	–	983
Trade and other payables and other liabilities	700	(31)	(13)	656
Net operating loss carry-forwards	4,715	3,248	9	7,972
Other	59	26	1	86
Deferred tax liabilities				
Property, plant and equipment	(15,665)	(193)	(11)	(15,869)
Mineral licenses	(7,216)	564	–	(6,652)
Inventory	(684)	(117)	–	(801)
Trade and other receivables	(124)	(207)	1	(330)
Loans and borrowings	(103)	(9)	–	(112)
Trade and other payables and other liabilities	(96)	(25)	2	(119)
Deferred tax assets (liabilities), net	**(14,780)**	**3,401**	**(19)**	**(11,398)**

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

Recognised in the consolidated statement of financial position:

	December 31, 2019	December 31, 2018
Deferred tax assets	3,648	5,488
Deferred tax liabilities	(13,877)	(13,506)
Deferred tax liabilities, net	**(10,229)**	**(8,018)**

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

For financial reporting purposes, the Group has not recognised deferred tax assets in the amount of RUB 29,600 million (2018: RUB 33,216 million) on losses in the amount of RUB 150,460 million (2018: RUB 177,639 million) that are available to carry forward against future taxable income of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will be available for utilization of such assets. Deferred tax assets on net operating loss carry forwards which are considered to be realisable in the future, are mostly related to the Russian subsidiaries.

A deferred tax liability of approximately RUB 305 million and RUB 302 million as of December 31, 2019 and 2018, 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 105 million and nil as of December 31, 2019 and 2018, 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 8,984 million and RUB 6,314 million as of December 31, 2019 and 2018, respectively, have been recorded in the Group's consolidated financial statements. Due to changes in the Russian tax legislation effective January 1, 2017, calculation of the consolidated tax base of the consolidated group of taxpayers and the way to offset current losses and losses received in the previous tax periods (before January 2017) were changed. Due to the absence of official explanations of the regulatory authorities concerning changes, 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, 2019.

Possible income tax risks of RUB 1,663 million and RUB 2,745 million as of December 31, 2019 and 2018, respectively, have not been recognised in the Group's consolidated financial statements.

20. Taxes and similar charges payable other than income tax

	December 31, 2019	December 31, 2018
Payroll taxes	3,353	2,424
VAT payable	4,120	2,233
Property tax	566	511
Land lease	454	471
Mineral extraction tax	332	226
Land tax	240	125
Other	163	116
Total	**9,228**	**6,106**

21. Pensions and other post-employment benefit plans

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

A number of the Group's companies provide their former employees with non-state retirement pensions, which are conditional on the member qualifying for the state old age pension. Some employees are also eligible for an early retirement in accordance with the state pension regulations. 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. All pension plans are unfunded until the qualifying event occurs.

As of December 31, 2019, there were 47,288 active participants under the defined benefit pension plans and other long-term benefit plans and 37,814 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2018 and December 31, 2017, the related figures were 48,531 and 48,920 of active participants under the defined benefit pension plans and other long-term benefits and 38,751 and 39,427 pensioners receiving monthly pensions or other regular financial support from these plans, respectively. The majority of employees at the Group's major subsidiaries belong to the trade unions.

Actuarial valuation of pensions and other long-term benefits for the major subsidiaries was performed in January 2020, with the measurement date of December 31, 2019. 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.

The state retirement age is one of the factors affecting the retirement of employees from the Group. In October 2018, the state gradually changed the previously established national retirement age; the Group took this circumstance into account in the actuarial valuation of the obligations. The effect of the revaluation of the retirement benefit obligation due to the amended pension legislation of the Russian Federation was reflected as the cost of past services in 2018.

As of December 31, 2019, defined benefit obligations, including pension obligations in the amount of RUB 4,745 million and other long-term benefit obligations in the amount of RUB 803 million (RUB 3,806 million and 785 million as of December 31, 2018, respectively), were presented within Pension obligations in the consolidated statement of financial position.

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

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

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

Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2018 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2017	**(4,632)**	**271**	**(4,361)**
Current service cost	(130)	–	(130)
Net interest expense	(266)	(13)	(279)
Curtailment / settlement gain	4	–	4
Remeasurement of other long-term benefit obligations	(492)	–	(492)
Past service cost	70	–	70
Sub-total included in profit or loss	**(814)**	**(13)**	**(827)**
Benefit paid	299	(17)	282
Exchange difference	(213)	41	(172)
Actuarial changes arising from changes in demographic assumptions	(38)	–	(38)
Actuarial changes arising from changes in financial assumptions	354	–	354
Experience adjustments	171	–	171
Sub-total included in OCI	**274**	**41**	**315**
December 31, 2018	**(4,873)**	**282**	**(4,591)**

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

Changes in the present value of the pension obligations and other long-term benefits and fair value of plan assets for 2019 were as follows:

	Pension obligation	Fair value of plan assets	Benefit liability
December 31, 2018	**(4,873)**	**282**	**(4,591)**
Current service cost	(210)	–	(210)
Net interest expense	(297)	4	(293)
Curtailment / settlement gain	–	–	–
Remeasurement of other long-term benefit obligations	(25)	–	(25)
Past service cost	–	–	–
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.

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

	December 31, 2019	December 31, 2018
Current liabilities	615	772
Non-current liabilities	4,933	3,819
Total net pension obligations	**5,548**	**4,591**

The plan asset allocation of the investment portfolio was as follows as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Debt instruments	142	161
Equity instruments	82	74
Cash and cash equivalents	18	19
Property	12	15
Other assets	9	13
Total plan assets	**263**	**282**

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

The Group's entities have a practice to provide lump-sum financial support to former employees as well as certain life-long benefits, so there is a risk of changes in the life expectancy for pensioners. This risk is controlled by using most recent life expectancy tables. The risk of a significant fluctuation in interest rates is offset by actuarial best estimate assumptions in respect of discount rates. The Group does not identify the unusual, specific business plan or risk, as well as any significant risk concentrations. The Group performs sensitivity analysis calculating the whole defined benefit obligation and other long-term benefits obligation in different actuarial assumptions and comparing the results. There are no changes from the previous period in the methods and set of assumptions used in preparing the sensitivity analyses. The weighted average duration of the defined benefit obligation and other long-term benefits obligation is around 12 years as of December 31, 2019 and 2018.

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

The key actuarial assumptions used to determine defined benefit obligations were as follows as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Discount rate		
Russian entities	6.60%	8.60%
German entities	1.10%	1.90%
Ukrainian entity	5.70%	11.80%
Austrian entities	0.75%	1.70%
Inflation rates		
Russian entities	4.00%	4.00%
Ukrainian entity	6.70%	6.60%
Rate of compensation increase		
Russian entities	5.10%	5.00%
German entities	4.00%	4.00%
Ukrainian entity	9.90%	9.60%
Austrian entities	2.25%	2.25%

The results of sensitivity analysis of defined benefit obligations for the Russian and Ukrainian entities as of December 31, 2019 and 2018 are presented below:

	2019	2018
Discount rate		
1% increase	-9.20%	-6.75%
1% decrease	11.00%	7.85%
Inflation rate		
1% increase	5.90%	5.09%
1% decrease	-5.00%	-4.37%
Rate of compensation increase		
1% increase	4.00%	2.48%
1% decrease	-3.60%	-2.23%
Turnover rate		
3% increase	-7.40%	-5.98%
3% decrease	7.90%	7.87%

The results of sensitivity analysis of defined benefit obligations for Austrian entities as of December 31, 2019 and 2018 are presented below:

	2019	2018
Discount rate		
1% increase	-10.20%	-10.03%
1% decrease	12.20%	11.98%

The results of sensitivity analysis of defined benefit obligations for German entities as of December 31, 2019 and 2018 are presented below:

	2019	2018
Discount rate		
1% increase	-12.00%	-12.00%
1% decrease	18.00%	18.00%

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

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

22. Provisions

	Rehabilitation provision	Provisions for legal claims	Provisions on taxes other than income tax, fines and penalties	Other provisions	Total
At December 31, 2016	**3,678**	**746**	**760**	**1,732**	**6,916**
Arising during the year	–	2,175	23	7	**2,205**
Utilized	(79)	(451)	(1)	(905)	**(1,436)**
Revision in estimated cash flow and discount rate change	82	–	–	–	**82**
Unused amounts reversed	–	(180)	(232)	(551)	**(963)**
Unwinding of discount	311	–	–	–	**311**
Exchange differences	–	–	26	32	**58**
At December 31, 2017	**3,992**	**2,290**	**576**	**315**	**7,173**
Current	**178**	**2,290**	**576**	**315**	**3,359**
Non-current	**3,814**	–	–	–	**3,814**
Arising during the year	–	1,516	199	905	**2,620**
Utilized	(77)	(273)	–	(256)	**(606)**
Revision in estimated cash flow and discount rate change	(309)	–	–	–	**(309)**
Unused amounts reversed	–	(646)	(188)	(20)	**(854)**
Unwinding of discount	302	–	–	–	**302**
Exchange differences	–	215	(4)	4	**215**
At December 31, 2018	**3,908**	**3,102**	**583**	**948**	**8,541**
Current	**189**	**3,102**	**583**	**948**	**4,822**
Non-current	**3,719**	–	–	–	**3,719**
Arising during the year	–	1,346	980	–	**2,326**
Utilized	(30)	(264)	–	(722)	**(1, 016)**
Revision in estimated cash flow and discount rate change	1,180	–	–	–	**1,180**
Unused amounts reversed	–	(1,200)	(9)	(197)	**(1,406)**
Unwinding of discount	345	–	–	–	**345**
Exchange differences	–	(150)	(19)	(5)	**(174)**
At December 31, 2019	**5,403**	**2, 834**	**1,535**	**24**	**9,796**
Current	**165**	**2, 834**	**1,535**	**24**	**4,558**
Non-current	**5,238**	**–**	**–**	**–**	**5,238**

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. In 2019, the increase in rehabilitation provision is mostly due to significant decrease in discount rate.

Provisions for legal claims

A provision for the claims related to disputes over purchases was recognised in the amount of RUB 741 million in 2018 and reversed in 2019 due to favorable court judgment.

Legal claim contingency

As of December 31, 2019, management assesses the outcome of several court proceedings and claims where the Group’s companies act as defendants in the aggregate amount of RUB 2,195 million as possible based on the management’s analysis and discussions with the legal advisers.

As of December 31, 2019, the Group as a defendant is involved in the court proceeding regarding the claim from one of the metallurgical plants as defined in Note 8(a). 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.

Provisions on taxes other than income tax

Management believes that it has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits which will be required to settle these liabilities. In accordance with IAS 37, the Group recorded RUB 1,535 million and RUB 583 million of other tax claims including fines and penalties that management believes are probable as of December 31, 2019 and 2018, 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, 2019.

Possible tax liabilities on taxes other than income tax, which were identified by management as those that can be subject to different interpretations of the tax law and regulations, are not accrued in the consolidated financial statements. The amount of such liabilities was RUB 1,904 million and RUB 1,689 million as of December 31, 2019 and 2018, respectively.

Environmental

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

23. Issued capital and reserves

Common shares

The capital stock of Mechel PAO consists of 416,270,745 common shares, each with a nominal value of 10 Russian rubles, all of which are issued, fully paid for and outstanding under the Russian law, of which 1,018,996 and nill were owned by one of the Group's subsidiaries as of December 31, 2019 and 2018, respectively. In December 2019, the Group reacquired 1,018,996 common shares for RUB 63 million. Mechel PAO is authorised to issue additional 81,698,341 common shares with a nominal value of 10 Russian rubles each.

Preferred shares

As of December 31, 2019 and 2018, 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 and 83,254,149 shares were outstanding and fully paid for, and the remaining 54,793,636 and 55,502,766 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 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 (over 50%) interest in the share capital of the company (Russian or foreign) of the dividend payer for a period over one year and the residence of the dividend distribution foreign company is not included into the Ministry of Finance offshore list. Herewith 0% tax rate is not applicable to the income received by foreign entities that are recognised as Russian residents in accordance with the Russian Tax Code.

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

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 of RUB 1,516 million (RUB 18.21 per preferred share) to the third party holders of preferred shares for 2018.

On June 29, 2018, the Group's subsidiaries declared dividends attributable to non-controlling interests of RUB 0.056 million and Mechel declared dividends of RUB 1,387 million (RUB 16.66 per preferred share) to the holders of preferred shares for 2017.

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

Additional paid-in capital

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

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, 2019, 2018 and 2017.

24. Other income/expenses

24.1 Administrative and other operating expenses

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

	2019	2018	2017
Wages, salaries and social security costs	9,116	10,482	7,769
Office and maintenance expenses	1,231	1,213	1,211
Loss on write-off of non-current assets	1,103	859	321
Depreciation	728	756	605
Fines and penalties related to business contracts	630	391	303
Audit and consulting services	558	941	631
Provision for legal claims, net	146	870	1,995
Banking charges and services	330	245	271
Consumables	308	307	276
Social expenses	303	387	406
Business trips	115	139	132
Expense relating to short-term leases (Note 10.6)	83	158	165
Write off of trade and other receivables	5	2	109
Net result from disposal of non-current assets	–	–	34
Other	1,660	2,015	1,683
Total	**16,316**	**18,765**	**15,911**

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.

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

24.2 Employee benefits expense

Employee benefits expenses are comprised of the following:

	2019	2018	2017
Included in cost of sales			
Wages and salaries	23,022	21,519	20,591
Social security costs	7,485	6,887	6,438
Post-employment benefits	210	130	142
Included in selling and distribution expenses			
Wages and salaries	3,882	3,784	3,686
Social security costs	1,052	999	973
Included in administrative and other operating expenses			
Wages and salaries	7,206	8,444	6,259
Social security costs	1,910	2,038	1,510
Total	**44,767**	**43,801**	**39,599**

24.3 Other operating income

Other operating income is comprised of the following:

	2019	2018	2017
Income from fines and penalties related to business contracts	160	248	307
Net result from disposal of non-current assets	27	128	–
Curtailment and result of remeasurement of pension obligations	25	93	175
Gain from sales of scrap materials	–	378	226
Subsidies received from the governmental authorities as a compensation for operating activities (energy tariffs)	–	359	496
Other	533	505	183
Total	**745**	**1,711**	**1,387**

In 2019, 2018 and 2017, the Group recognised gain on remeasurement of pension obligations because of the changes in the actuarial assumptions, fluctuation in payment amounts from year to year, adjustment in the financial support amount per one pensioner.

24.4 Finance income and finance costs

Finance income is comprised of the following:

	2019	2018	2017
Effect of restructuring of loans and leases	362	33,514	264
Interest income on other financial assets	180	207	158
Income from the discounting of financial instruments	58	15	14
Remeasurement of fair value of financial instruments (Note 10.5)	–	320	197
Total	**600**	**34,056**	**633**

Effect of restructuring of loans and leases in 2019 mainly include waiving of fines and penalties on leases with Gazprombank Leasing and Cat Financial, in 2018, primarily relates to VTB (Note 10.1 (b)), Gazprombank (Note 10.1 (c)) and the refinancing of the pre-export credit facility (Note 10.1 (a)).

Finance costs are comprised of the following:

	2019	2018	2017
Interest on loans and borrowings	31,750	35,556	40,298
Interest expense on lease liabilities	1,409	1,104	1,230
Fines and penalties on overdue loans and borrowing payments and overdue interest payments	733	858	1,086

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

Fines and penalties on overdue leases	49	10	75
Total finance costs related to loans, borrowings and leases	**33,941**	**37,528**	**42,689**
Expenses related to discounting of financial instruments	4,251	3,916	4,179
Unwinding of discount on rehabilitation provision	345	302	311
Interest expenses under pension liabilities	293	279	314
Remeasurement of fair value of the call option (Note 10.5)	–	27	117
Total	**38,830**	**42,052**	**47,610**

Expenses related to discounting of financial instruments include changes in the measurement of the non-current obligation related to put-option granted on non-controlling interests in the amount of RUB 4,145 million (2018: RUB 3,796 million, 2017: RUB 4,062 million) (Note 10.4).

24.5 Other income and other expenses

Other income is comprised of the following:

	2019	2018	2017
Write-off of trade and other payables with expired legal term	167	425	516
Gain on royalty and other proceeds associated with disposal of Bluestone	–	3	474
Gain on final settlements from subsidiaries' disposal occurred in previous years	–	3	–
Gain on forgiveness and restructuring of trade and other payables	–	–	447
Other income	72	81	58
Total	**239**	**512**	**1,495**

Other expenses are comprised of the following:

	2019	2018	2017
Loss on sales and purchases of foreign currencies	148	108	114
Other expenses	356	206	106
Total	**504**	**314**	**220**

Write-off of trade and other payables with expired legal term constitutes gain on the write-off of payable amounts that were written-off due to legal liquidation of the creditors or expiration of the statute of limitation.

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

25. Segment information

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

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

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 income (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, 2019 and for the year then ended	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from contracts with external customers	92,996	174,850	28,721	–	**296,567**
Inter-segment revenue	37,710	6,107	15,606	(59,423)	–
Gross profit	68,152	27,525	13,190	(157)	**108,710**
Gross margin, %	52.1	15.2	29.8	–	**36.7**
Depreciation and amortisation	(8,541)	(6,153)	(482)	–	**(15,176)**
Impairment of goodwill and other non-current assets, net	(3,688)	1,884	–	–	**(1,804)**
Operating profit	23,902	7,126	1,548	(1,078)	**31,498**
Share of profit of associates, net	28	–	–	–	**28**
Finance income	524	75	1	–	**600**
Intersegment finance income	386	375	30	(791)	–
Finance cost	(23,934)	(14,514)	(382)	–	**(38,830)**
Intersegment finance cost	(195)	(325)	(271)	791	–
Income tax expense	(94)	(503)	(333)	(7,057)	**(7,987)**
Profit for the year	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**

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

As of December 31, 2018 and for the year then ended	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from contracts with external customers	96,882	187,918	27,774	–	**312,574**
Inter-segment revenue	37,549	5,865	15,471	(58,885)	–
Gross profit	77,199	44,433	12,571	615	**134,818**
Gross margin, %	57.4	22.9	29.1	–	**43.1**
Depreciation and amortisation	(7,621)	(5,738)	(500)	–	**(13,859)**
Impairment of goodwill and other non-current assets, net	(3,684)	(819)	(2,719)	–	**(7,222)**
Operating profit (loss)	32,574	19,831	(3,240)	615	**49,780**
Share of profit of associates, net	10	–	–	–	**10**
Finance income	23,387	9,478	1,191	–	**34,056**
Intersegment finance income	1,071	395	41	(1,507)	–
Finance cost	(28,932)	(12,810)	(310)	–	**(42,052)**
Intersegment finance cost	(220)	(1,015)	(272)	1,507	–
Income tax (expense) benefit	(5,940)	531	83	2,645	**(2,681)**
Profit (loss) for the year	11,489	1,331	(2,544)	3,260	**13,536**
Segment assets	208,123	97,373	7,519	4,610	**317,625**
Segment liabilities	296,125	247,241	9,469	(2,015)	**550,820**
Investments in associates	293	–	–	–	**293**

As of December 31, 2017 and for the year then ended	**Mining**	**Steel**	**Power**	**Adjustments and eliminations**	**Consolidated**
Revenue from contracts with external customers	100,129	172,760	26,224	–	**299,113**
Inter-segment revenue	42,286	7,622	16,338	(66,246)	–
Gross profit	93,464	34,013	12,724	(1,444)	**138,757**
Gross margin, %	65.6	18.9	29.9	–	**46.4**
Depreciation and amortisation	(7,979)	(5,800)	(448)	–	**(14,227)**
Impairment of goodwill and other non-current assets, net	(3,800)	(2,281)	–	–	**(6,081)**
Operating profit	48,190	9,154	1,267	(1,444)	**57,167**
Share of profit of associates, net	18	–	–	–	**18**
Finance income	475	150	8	–	**633**
Intersegment finance income	1,335	567	49	(1,951)	–
Finance cost	(34,324)	(12,793)	(493)	–	**(47,610)**
Intersegment finance cost	(222)	(1,342)	(387)	1,951	–
Income tax (expense) benefit	(3,410)	(203)	(229)	692	**(3,150)**
Profit (loss) for the year	17,210	(4,116)	228	(752)	**12,570**
Segment assets	209,630	100,543	10,417	(1,463)	**319,127**
Segment liabilities	371,196	184,952	9,808	(2,696)	**563,260**
Investments in associates	283	–	–	–	**283**

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.

	2019	**2018**	**2017**
Domestic			
Russia	171,215	178,880	176,906
Other	28,469	29,666	23,445
Total	**199,684**	**208,546**	**200,351**
Export	96,883	104,028	98,762
Total revenue	**296,567**	**312,574**	**299,113**

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:

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

	2019	2018	2017
Russia	171,344	178,997	177,005
Asia	63,187	61,840	63,182
Europe	38,334	44,263	36,605
CIS	21,465	23,877	19,346
Middle East	1,983	3,130	2,212
USA	155	258	286
Other regions	99	209	477
Total	**296,567**	**312,574**	**299,113**

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

	December 31, 2019	December 31, 2018
Russia	225,755	219,504
Germany	1,225	1,532
Austria	677	637
Czech Republic	237	224
Other	173	50
Total	**228,067**	**221,947**

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:

	2019	2018	2017
Mining segment			
Coal and middlings	71,970	80,022	84,341
Coke and chemical products	17,970	14,205	13,747
Iron ore concentrate	1,179	839	220
Other	1,877	1,816	1,821
Total	**92,996**	**96,882**	**100,129**
Steel segment			
Long steel products	97,692	105,722	96,768
Hardware	27,086	30,040	27,578
Flat steel products	23,371	22,786	22,505
Forgings and stampings	14,818	15,848	12,247
Ferrosilicon	3,229	3,927	2,807
Steel pipes	3,281	3,230	2,733
Semi-finished steel products	137	54	492
Other	5,236	6,311	7,630
Total	**174,850**	**187,918**	**172,760**
Power segment			
Electricity	26,965	26,009	24,297
Other	1,756	1,765	1,927
Total	**28,721**	**27,774**	**26,224**
Total revenue	**296,567**	**312,574**	**299,113**

26. Events after the reporting period

The Group evaluated subsequent events from December 31, 2019 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 and disclosed in Note 4 and Note 10.4.

Since January 2020, the Russian government implemented preventive measures to curb the spread of coronavirus (COVID-19) in the country by imposing quarantines, carrying raids on potential virus carriers and using facial recognition to impose quarantine measures. The extent to which the coronavirus impacts the Group's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

Chief Executive Officer of Mechel PAO ____________ Oleg V. Korzhov March 19, 2020

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
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