SUEK PLC

Consolidated interim condensed financial statements

for the six months ended 30 June 2015 (unaudited)

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders of
SUEK PLC

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of SUEK PLC (the "Company") and its subsidiaries (the "Group") as at 30 June 2015, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2015 and for the six-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Shvetsov A.V.
Director, (power of attorney dated 16 March 2015 No. 156/15)
JSC "KPMG"
14 July 2015
Moscow, Russian Federation

Audited entity: SUEK PLC

A public limited liability company, incorporated in Cyprus on 13 April 2011 under the Cyprus Companies Law, Cap. 113.

Registered at 3 Georgiou Katsounotou, Kitallides Building, Flat/Office 3A, 3036, Limassol, Cyprus

Independent auditor: JSC KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

SUEK PLC

Consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2015 (unaudited)

Millions of US Dollars

	Notes	Six months ended 30 June 2015	2014
Revenue	5	**2,122**	**2,512**
Cost of sales	6	(1,121)	(1,232)
Distribution costs	7	(699)	(1,026)
General and administrative expenses	8	(49)	(60)
Other expense, net		(6)	(8)
Operating profit		**247**	**186**
Finance costs, net	9	(65)	(63)
Gain from disposal of investments		—	5
Foreign exchange gain/(loss)		5	(72)
Profit before tax		**187**	**56**
Income tax expense	19	**(24)**	**(7)**
Net profit for the period		**163**	**49**
Net profit attributable to:			
Ordinary shareholders of the parent		143	35
Non-controlling interests		20	14
Net profit for the period		**163**	**49**
Basic and diluted earnings per share (in US Dollars)		0.35	0.09

The accompanying notes on pages 8 to 21 are an integral part of these consolidated interim condensed financial statements.

SUEK PLC
Consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2015 (unaudited)
Millions of US Dollars

	Notes	Six months ended 30 June 2015	2014
Net profit for the period		**163**	**49**
Other comprehensive income/(loss)			
Items, which may be reclassified to profit or loss in the future:			
Effective portion of changes in fair value of cash flow hedges, net of deferred tax	15	(28)	1
Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax	15	19	(6)
Translation difference		70	(97)
Total items which may be reclassified to profit or loss in the future		**61**	**(102)**
Total other comprehensive income/(loss) for the period		**61**	**(102)**
Total other comprehensive income/(loss) attributable to:			
Ordinary shareholders of the parent		60	(93)
Non-controlling interests		1	(9)
Total other comprehensive income/(loss)		**61**	**(102)**
Total comprehensive income/(loss) for the period attributable to:			
Ordinary shareholders of the parent		201	(61)
Non-controlling interests		23	8
Total comprehensive income/(loss) for the period		**224**	**(53)**

The accompanying notes on pages 8 to 21 are an integral part of these consolidated interim condensed financial statements.

SUEK PLC

Consolidated interim condensed statement of financial position as at 30 June 2015 (unaudited)

Millions of US Dollars

	Notes	30 June 2015	31 December 2014
ASSETS			
Non-current assets		**6,985**	**7,269**
Property, plant and equipment	10	6,784	6,731
Receivable relating to power business	20	—	300
Goodwill	11	102	83
Deferred tax assets		91	137
Other assets		8	18
Current assets		**1,520**	**1,288**
Inventories	12	370	343
Trade accounts and other receivables	13	446	477
Receivable relating to power business	20	300	—
Prepaid and recoverable taxes	14	98	93
Derivative financial assets	15	20	24
Cash and cash equivalents		286	351
Total assets		**8,505**	**8,557**
EQUITY AND LIABILITIES			
Equity		**3,247**	**3,045**
Share capital	16	—	—
Share premium		6,251	6,251
Other equity		(8,145)	(8,145)
Revaluation reserve		3,382	3,453
Hedging reserve		2	11
Translation reserve		(475)	(544)
Retained earnings		2,011	1,801
Attributable to ordinary shareholders of the parent		**3,026**	**2,827**
Non-controlling interests		**221**	**218**
Non-current liabilities		**3,409**	**3,979**
Long-term borrowings	17	2,403	2,946
Deferred tax liabilities		896	943
Other liabilities		110	90
Current liabilities		**1,849**	**1,533**
Short-term borrowings	17	1,308	747
Trade accounts and other payables	18	343	571
Derivative financial liabilities	15	160	161
Taxes payable		38	54
Total shareholders' equity and liabilities		**8,505**	**8,557**

The accompanying notes on pages 8 to 21 are an integral part of these consolidated interim condensed financial statements.

SUEK PLC
Consolidated interim condensed statement of cash flows for the six months ended 30 June 2015 (unaudited)
Millions of US Dollars

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
Profit before tax		**187**	**56**
Adjustments to profit before tax:			
Depreciation and amortisation	6, 7	237	290
Finance costs	9	65	63
Bad debt expense		5	6
Foreign exchange (gain)/loss		(5)	72
Gain from disposal of investments		—	(5)
Other, net		8	(2)
Changes in working capital items:			
Increase in inventories		(17)	(93)
Decrease in trade accounts and other receivables		58	9
(Increase)/decrease in prepaid and recoverable taxes (other than income tax)		(10)	12
(Decrease)/increase in trade accounts and other payables		(237)	33
Decrease in taxes payable (other than income tax)		(18)	(9)
Net cash inflow from operations		**273**	**432**
Income tax paid		(36)	(52)
Net cash inflow from operating activities		**237**	**380**
Investing activities			
Purchase of property, plant and equipment		(157)	(243)
Acquisition of subsidiary	24	(49)	—
Advances issued for non-current investments		(22)	(17)
Interest received		15	9
Proceeds from disposal of non-current investments		—	5
Net cash outflow from investing activities		**(213)**	**(246)**
Financing activities			
Proceeds from long-term borrowings		201	1,551
Repayments of long-term borrowings		(339)	(1,157)
Proceeds from/(repayments of) short-term borrowings, net		131	(21)
Interest and commissions paid		(53)	(84)
Acquisition of non-controlling interest	24	(20)	—
Dividends paid to non-controlling interests		(7)	(7)
Net cash (outflow)/inflow from financing activities		**(87)**	**282**
Foreign exchange effect on cash and cash equivalents		(2)	(12)
Net (decrease)/increase in cash and cash equivalents		**(65)**	**404**
Cash and cash equivalents at the beginning of the period		351	269
Cash and cash equivalents at the end of the period		**286**	**673**

The accompanying notes on pages 8 to 21 are an integral part of these consolidated interim condensed financial statements.

SUEK PLC
Consolidated interim condensed statement of changes in shareholders' equity for the six months ended 30 June 2015 (unaudited)

Millions of US Dollars

	Share capital	Share premium	Other equity	Revaluation reserve	Hedging reserve	Translation reserve	Retained earnings	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2014	**—**	**6,251**	**(8,145)**	**1,982**	**(41)**	**(218)**	**2,566**	**2,395**	**250**	**2,645**
Net profit for the period	—	—	—	—	—	—	35	**35**	14	**49**
Other comprehensive loss	—	—	—	—	(5)	(88)	—	**(93)**	(9)	**(102)**
Transfer to retained earnings	—	—	—	(45)	—	—	42	**(3)**	3	—
Total comprehensive loss for the period	**—**	**—**	**—**	**(45)**	**(5)**	**(88)**	**77**	**(61)**	**8**	**(53)**
Transactions with owners-dividends to non-controlling interests	—	—	—	—	—	—	—	—	(7)	**(7)**
Balance at 30 June 2014	**—**	**6,251**	**(8,145)**	**1,937**	**(46)**	**(306)**	**2,643**	**2,334**	**251**	**2,585**
Balance at 1 January 2015	—	**6,251**	**(8,145)**	**3,453**	**11**	**(544)**	**1,801**	**2,827**	**218**	**3,045**
Net profit for the period	—	—	—	—	—	—	143	**143**	20	**163**
Other comprehensive income	—	—	—	—	(9)	69	—	**60**	1	**61**
Transfer to retained earnings	—	—	—	(71)	—	—	69	**(2)**	2	—
Total comprehensive income for the period	—	—	—	**(71)**	**(9)**	**69**	**212**	**201**	**23**	**224**
Transactions with owners:										
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(7)	**(7)**
Acquisition of non-controlling interests (see note 24)	—	—	—	—	—	—	(2)	**(2)**	(13)	**(15)**
Balance at 30 June 2015	—	**6,251**	**(8,145)**	**3,382**	**2**	**(475)**	**2,011**	**3,026**	**221**	**3,247**

The accompanying notes on pages 8 to 21 are an integral part of these consolidated interim condensed financial statements.

Millions of US Dollars, unless otherwise stated

1. GENERAL INFORMATION

Organisation and principal activities. SUEK PLC (the "Company") was established in the Republic of Cyprus ("Cyprus") on 13 April 2011. The address of its registered office is 3, Georgiou Katsounotou, Kitallides building, Flat/Office 3A, 3036, Limassol, Cyprus. The Company and its subsidiaries are collectively referred to as the Group. The principal activity of the Group is the extraction and sale of coal.

The principal ultimate beneficiary of SUEK PLC is Mr. Andrey Melnichenko. MADAKE ENTERPRISES COMPANY LIMITED is the immediate parent company of SUEK PLC.

These consolidated interim condensed financial statements were approved for issue by the Audit Committee on behalf of the Board of Directors of SUEK PLC on 14 July 2015.

2. BASIS OF PRESENTATION

The International Financial Reporting Standards ("IFRS") consolidated interim condensed financial statements ("consolidated interim condensed financial statements") of the Group have been prepared in accordance with International Accounting Standard No. 34 – "*Interim Financial Reporting*".

These consolidated interim condensed financial statements do not contain all the information required for presentation in a complete set of IFRS financial statements and therefore should be read in conjunction with SUEK PLC's consolidated annual financial statements for the year ended 31 December 2014.

The consolidated interim condensed financial statements of the Group have been prepared on the historical cost basis, except for:

- valuation of property, plant and equipment, including mineral rights, at the date of adoption of IFRS 1 "*First Time Adoption of International Financial Reporting Standards*" ("IFRS 1") which provides for entities to elect to measure items of property, plant and equipment, including mineral rights at fair value, and use that value as deemed cost in the future. The Group elected to measure property, plant and equipment, including mineral rights, at fair value as of 1 January 2005, which forms the deemed cost of these assets;
- mineral rights carried at fair value starting from 1 January 2013;
- derivative financial instruments and available for sale financial assets which are stated at fair value.

Functional currency. The functional currency of the Russian subsidiaries of the Group is the Russian Rouble ("RUB"), which is the currency of the primary economic environment where these entities operate. The functional currency of the Company and its foreign trading subsidiaries is US Dollar ("USD").

Presentation currency. The presentation currency is the USD. The translation of the consolidated interim condensed financial statements into the presentation currency was performed in accordance with the requirements of IAS 21 "*The Effects of Changes in Foreign Exchange Rates*".

The following RUB/USD exchange rates were applied at 30 June and during the periods then ended:

	USD	
	2015	**2014**
Period end (year end for 2014)	55.52	56.26
Average rate for 6 months ended 30 June	57.40	34.98

Adoption of new and revised standards and interpretations

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2014. No new standards and amendments became effective for the Group from 1 January 2015.

A number of new amendments and improvements to standards are not yet effective at 30 June 2015, and have not been early adopted:

- *IFRS 9 "Financial Instruments"* is to be issued in phases and is intended ultimately to replace IAS 39 "Financial Instruments: Recognition and Measurement". The first phase of IFRS 9 (issued in November 2009, effective for annual periods beginning on or after 1 January 2018, with earlier application permitted) relates to the classification and measurement of financial assets.
- *IFRS 15 "Revenue from contracts with customers"* (effective for annual periods beginning after 1 January 2017 with earlier application permitted) outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers.
- *Amended IFRS 10 "Consolidated financial statements"* and *IAS 28 "Investments in associates and joint ventures* (effective for annual periods beginning on or after 1 January 2016 with earlier application permitted) address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture.
- *Amended IAS 16 "Property, plant and equipment"* and *IAS 38 "Intangible assets"* (effective for annual periods beginning on or after 1 January 2016 with earlier application permitted) clarifies the use of a revenue-based depreciation or amortisation method.
- *Annual improvements to International Financial Reporting Standards 2012-2014* (effective for annual periods beginning on or after 1 January 2016, with earlier application permitted), which consist of improvements to a number of standards.
- *Amendments to IAS 1 "Presentation of Financial Statements"* (effective for annual periods beginning on or after 1 January 2016 with earlier application permitted) provide additional explanation of materiality and clarify amendments to statement of financial position and statement of profit or loss and other comprehensive income.

The Group does not expect the amendments to have significant impact on the consolidated interim condensed financial statements.

Seasonality of business. The business and operating results of the Group are substantially dependent on domestic and international demand. Coal markets are cyclical and exhibit fluctuations in supply and demand from year to year and are subject to numerous factors, including, but not limited to:

- Russian and global economic conditions;
- regional and global supply and demand for domestic and foreign coal and expectations regarding future supply and demand;
- fluctuations in industries with high demand for coal, such as power generation companies and metallurgical plants;
- unseasonably warm or cool temperatures or other climatic conditions;
- availability and price of alternative fuels and power;
- the proximity to, capacity of, and cost of transportation facilities and
- domestic and foreign governmental regulations and taxes.

Millions of US Dollars, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2014 including the change in classification of interest and commissions paid in the consolidated statement of cash flows.

4. SEGMENTAL INFORMATION

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and of the operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Operating segments identified by management include hard coal, brown coal, coking coal, ports and logistics and power segments. The hard coal, coking coal and brown coal segments represent operations of the coal mining companies including extraction, washing and sales of respective coal; the ports and logistics segment includes railroad transportation assets and ports; and the power segment assets consist of a long-term receivable for the power business (see note 20).

Operating segment information for the Group at 30 June 2015 and for the six months then ended is as follows:

	Hard coal	Brown coal	Coking coal	Ports and logistics	Power	Inter-segment elimination	Total
Segment revenue and profitability							
Segment external revenues	1,883	199	12	28	—	—	**2,122**
Inter-segment revenues	99	74	8	140	—	(321)	**—**
Segment expenses	(1,892)	(200)	(21)	(83)	—	321	**(1,875)**
Operating profit/(loss)	**90**	**73**	**(1)**	**85**	—	—	**247**
Depreciation and amortisation	(197)	(22)	(3)	(15)	—	—	**(237)**
Interest expense	(69)	(18)	(1)	(8)	—	30	**(66)**
Interest income	29	4	—	4	8	(30)	**15**
Profit/(loss) before tax	35	64	(2)	82	8	—	**187**
Income tax benefit/(expense)	9	(15)	—	(16)	(2)	—	**(24)**
Net profit/(loss) for the period	**44**	**49**	**(2)**	**66**	**6**	—	**163**
Capital expenditures incurred during the period	119	13	2	23	—	—	**157**
Segment assets and liabilities							
Total segment assets	**6,387**	**2,485**	**238**	**690**	**300**	**(1,595)**	**8,505**
Total segment liabilities	**5,243**	**1,276**	**56**	**278**	—	**(1,595)**	**5,258**

Millions of US Dollars, unless otherwise stated

Operating segment information for the Group at 30 June 2014 and for the six months then ended is as follows:

	Hard coal	**Brown coal**	**Coking coal**	**Ports and logistics**	**Power**	**Inter-segment elimination**	**Total**
Segment revenue and profitability							
Segment external revenues	2,201	268	7	36	—	—	**2,512**
Inter-segment revenues	150	83	22	178	—	(433)	**—**
Segment expenses	(2,323)	(276)	(33)	(127)	—	433	**(2,326)**
Operating profit/(loss)	**28**	**75**	**(4)**	**87**	**—**	**—**	**186**
Depreciation and amortisation	(234)	(25)	(6)	(25)	—	—	**(290)**
Interest expense	(60)	(18)	(3)	(10)	—	35	**(56)**
Interest income	30	5	—	6	8	(35)	**14**
(Loss)/profit before tax	(69)	50	(6)	74	7	—	**56**
Income tax benefit/(expense)	20	(10)	2	(18)	(1)	—	**(7)**
Net (loss)/profit for the period	**(49)**	**40**	**(4)**	**56**	**6**	**—**	**49**
Capital expenditures incurred during the period	186	17	—	21	—	—	**224**

Operating segment information of the Group at 31 December 2014 is as follows:

	Hard coal	**Brown coal**	**Coking coal**	**Ports and logistics**	**Power**	**Inter-segment elimination**	**Total**
Segment assets and liabilities							
Total segment assets	**6,479**	**2,174**	**240**	**640**	**300**	**(1,276)**	**8,557**
Total segment liabilities	**5,486**	**978**	**57**	**267**	**—**	**(1,276)**	**5,512**

Millions of US Dollars, unless otherwise stated

5. REVENUE

	Six months ended 30 June 2015	Six months ended 30 June 2014
Coal sales	**2,070**	**2,443**
Pacific region	911	1,030
Atlantic region	654	785
Russian Federation	505	628
Other	**52**	**69**
Total	**2,122**	**2,512**

6. COST OF SALES

	2015	2014
Coal purchased from third parties	308	145
Depreciation and amortisation	222	268
Labour	206	302
Consumables and spares	165	230
Repair and maintenance services	38	47
Purchased power	30	44
Transportation services	22	40
Drilling and blasting services	19	23
Tax on mining	16	20
Personnel transportation services	13	21
Fire and rescue brigade expenses	11	17
Land rent	10	16
Property tax	8	13
Other	53	46
Total	**1,121**	**1,232**

7. DISTRIBUTION COSTS

	2015	2014
Railway services	406	680
Freight	126	134
Stevedoring from third parties	54	51
Rent of rail cars	52	75
Labour	19	27
Depreciation and amortisation	15	22
Repair and maintenance services	10	13
Property tax	2	3
Other	15	21
Total	**699**	**1,026**

Millions of US Dollars, unless otherwise stated

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2015	Six months ended 30 June 2014
Salaries	29	37
Consulting, legal, audit and other professional services	6	6
Charitable donations	5	9
Office rent	2	3
Other	7	5
Total	**49**	**60**

9. FINANCE COSTS, NET

	2015	2014
Interest expense	66	56
Bank commissions and charges	11	16
Unwinding of discount on provisions	3	4
Change in fair value of derivatives, other than hedging	—	1
Interest income	(15)	(14)
Total	**65**	**63**

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral rights	Buildings, structures and utilities	Machinery, equipment, transport and other	Construction-in-progress	Total
Net book value at 31 December 2013	**3,437**	**1,058**	**1,391**	**462**	**6,348**
Additions	7	—	—	217	**224**
Transfers	—	26	192	(218)	**—**
Disposals	—	—	(1)	(3)	**(4)**
Depreciation and amortisation	(58)	(50)	(182)	—	**(290)**
Effect of translation to presentation currency	(93)	(31)	(36)	(13)	**(173)**
Net book value at 30 June 2014	**3,293**	**1,003**	**1,364**	**445**	**6,105**
Net book value at 31 December 2014	**5,026**	**656**	**872**	**177**	**6,731**
Acquisition of subsidiary (see note 24)	—	53	—	—	**53**
Additions	2	—	—	155	**157**
Transfers	—	8	76	(84)	**—**
Disposals	—	—	—	(1)	**(1)**
Depreciation and amortisation	(98)	(33)	(106)	—	**(237)**
Effect of translation to presentation currency	63	1	10	7	**81**
Net book value at 30 June 2015	**4,993**	**685**	**852**	**254**	**6,784**

Group assets include advances issued for capital expenditures of 30 million USD (31 December 2014 – 28 million USD).

If mineral rights had been carried at historical cost, the net book value of property, plant and equipment at 30 June 2015 would have been 2,369 million USD (31 December 2014 – 2,280 million USD).

Millions of US Dollars, unless otherwise stated

11. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are as follows:

	30 June 2015	31 December 2014
Opening balance	**83**	**142**
Acquisition of subsidiary (see note 24)	20	—
Effect of translation to presentation currency	(1)	(59)
Closing balance	**102**	**83**

12. INVENTORIES

Coal stock	228	226
Consumable stores and materials	156	127
Less: Allowance for obsolescence	14	10
Net consumable stores and materials	142	117
Total	**370**	**343**

13. TRADE ACCOUNTS AND OTHER RECEIVABLES

Trade accounts receivable	331	385
Advances issued	74	81
Other receivables	54	20
Subtotal	**459**	**486**
Less: Allowance for doubtful debts	13	9
Total	**446**	**477**

14. PREPAID AND RECOVERABLE TAXES

Value-added tax recoverable	60	57
Income tax receivable	28	33
Prepaid other taxes	10	3
Total	**98**	**93**

15. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2015		31 December 2014	
	Derivative assets	**Derivative liabilities**	**Derivative assets**	**Derivative liabilities**
Coal swaps – cash flow hedges	9	—	19	—
Cross-currency interest rate swap – cash flow hedges	—	160	—	161
Other derivatives	11	—	5	—
Total	**20**	**160**	**24**	**161**

Details of effective portion of changes in fair value of cash flow hedges were as follows:

	6 months ended 30 June 2015		6 months ended 30 June 2014	
	Loss recognised in comprehensive income	**Loss recycled from comprehensive income to profit and loss**	**Gain recognised in comprehensive income**	**Gain recycled from comprehensive income to profit and loss**
Effective portion of changes in fair value of cash flow hedges	(31)	21	1	(7)
Deferred tax	3	(2)	—	1
Total	**(28)**	**19**	**1**	**(6)**

16. SHARE CAPITAL AND RESERVES

	Number of shares, in thousands	
	30 June 2015	**31 December 2014**
Authorised share capital		
Ordinary shares	550,000	550,000
Issued share capital		
Ordinary shares	410,000	410,000
Total	**410,000**	**410,000**

Ordinary shares have a par value of 0.0005 USD. All issued shares were fully paid.

Millions of US Dollars, unless otherwise stated

17. BORROWINGS

	Effective interest rate	30 June 2015	31 December 2014
Long-term borrowings			
Variable rate borrowings		**2,991**	**3,112**
USD-denominated borrowings	6M LIBOR + 1.05% to 1M LIBOR + 2.7%	2,632	2,953
EUR-denominated borrowings	6M EURIBOR + 0.7% to 6M EURIBOR + 4.85%	359	159
Fixed rate borrowings		**535**	**522**
RUB-denominated bonds	8.25% to 8.7%	225	217
USD-denominated borrowings	3.15%	266	262
RUB-denominated borrowings	9.9% to 13.9%	44	43
Subtotal		**3,526**	**3,634**
Less: Current portion of long-term borrowings		1,123	688
Total long-term borrowings		**2,403**	**2,946**
Short-term borrowings			
Variable rate borrowings		**45**	**53**
USD-denominated borrowings	3M LIBOR + 1.5%	45	53
Fixed rate borrowings		**140**	**6**
USD-denominated borrowings	2.75% to 5.8%	140	6
Subtotal		**185**	**59**
Current portion of long-term borrowings		1,123	688
Total short-term borrowings		**1,308**	**747**

The Group's long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with:

- consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation ("EBITDA"); and
- EBITDA to consolidated interest expense.

The covenants are calculated based on the IFRS financial statements of the Group on a semi-annual basis. The Group was in compliance with all such covenants.

Millions of US Dollars, unless otherwise stated

18. TRADE ACCOUNTS AND OTHER PAYABLES

	30 June 2015	31 December 2014
Trade accounts payable and accruals	133	199
Advances from customers	56	151
Accrual for vacation payments	43	35
Wages and salaries	31	32
Promissory notes payable	—	67
Other creditors	80	87
Total	**343**	**571**

19. TAXATION

	Six months ended 30 June 2015	Six months ended 30 June 2014
Current income tax expense	44	41
Deferred income tax benefit	(20)	(34)
Income tax expense	**24**	**7**

The reconciliation of theoretical income tax, calculated at the rate effective in Cyprus where the Company is domiciled, to the amount of actual income tax expense recorded in the consolidated interim condensed statement of profit or loss and other comprehensive income is as follows:

	2015	2014
Profit before tax	**187**	**56**
Theoretical income tax expense at 12.5%	23	7
Impact of specific tax rates in Russian Federation	5	1
Impact of specific tax rates in Switzerland	(5)	(2)
Tax effect of non-deductible expenses	1	1
Total income tax expense	**24**	**7**

20. RELATED PARTY TRANSACTIONS

Related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group as well as entities with the same principal ultimate beneficiaries. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Transactions with related parties are not always performed under conditions that would be available for parties not related to the Group.

Millions of US Dollars, unless otherwise stated

Transactions with related parties not dealt with elsewhere in the consolidated interim condensed financial statements are as follows:

	Six months ended 30 June	
	2015	**2014**
Coal sales to SIBERIAN ENERGY INVESTMENTS Group	244	279
Coal sales to DEC Group, an associate of a company with the same principal ultimate beneficiary	85	82
Other purchases	12	18
Interest income	10	7
Rent of railcars from a company with the same principal ultimate beneficiary	8	1
Gain from disposal of investments to companies with the same principal ultimate beneficiary	—	5
Remuneration of the Board of Directors and the Management Board members	3	4

The outstanding balances with related parties are as follows:

	30 June 2015	**31 December 2014**
Receivable relating to power business	300	300
Trade accounts and other receivables from SIBERIAN ENERGY INVESTMENTS Group	42	58
Trade accounts and other receivables from DEC Group	15	19
Trade accounts and other payables to a company with the same principal ultimate beneficiary	2	—

Receivable relating to power business. The receivable is a part of consideration for the power business demerged from the coal business of SUEK in 2011 maturing in 2016. In 2015, the receivable was reclassified from non-current assets to current assets. In June 2015, a company with the same principal ultimate beneficiary transferred the liability on the same terms to SIBERIAN ENERGY INVESTMENTS Group.

21. COMMITMENTS

Capital commitments. Management has approved the following capital expenditures:

	30 June 2015	**31 December 2014**
Contracted	150	58
Not yet contracted	200	332
Total	**350**	**390**

22. CONTINGENCIES

Insurance. The insurance industry in the Russian Federation is in the process of development, and some forms of insurance protection common in developed markets are not yet generally available at commercially acceptable terms. The Group has limited coverage for its mining, processing, transportation and power generating facilities for business interruption or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Litigation. The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, existing or potential arising from past events, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation. 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 activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their 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. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment and other environmental concerns.

The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, changes in environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

23. FAIR VALUE MEASUREMENT

The fair value of assets and liabilities is determined with reference to various market information and other valuation methods as considered appropriate. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in valuation techniques, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data.

Financial instruments carried at amortised cost. At 30 June 2015, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values. At 31 December 2014, the fair values of financial instruments carried at amortised cost did not materially differ from the carrying values except for receivable for power business in the amount of USD 300 million and fixed rate borrowings in the amount of USD 522 million, fair values of these assets and liabilities were lower by USD 13 million and USD 33 million, respectively. The fair values were determined based on the discounted cash flow method, which corresponds to Level 3 of the hierarchy of the fair values.

Financial instruments carried at fair value. Fair values of derivative financial assets and liabilities were determined using inputs from observable market data, which correspond to Level 2 of the hierarchy of fair values.

Mineral rights carried at fair value. The fair value of mineral rights was determined using the discounted cash flow method, corresponding to Level 3 of the hierarchy of fair values. The most recent valuation was performed on 31 December 2014.

24. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Transactions with non-controlling interest. From transactions in January, February and June 2015 the Group acquired a total 15.46% of OJSC Primorskugol for 11 million USD from third parties and increased its share to 100%. These transactions resulted in a decrease in non-controlling interest of 10 million USD and a decrease in retained earnings of 1 million USD.

In May 2015, the Group acquired 1.8% of PC Murmanski Morskoi Torgovyi Port for 9 million USD from a third party and increased its share to 39.3%. This transaction resulted in a decrease in non-controlling interest of 3 million USD and a decrease in retained earnings of 6 million USD.

Millions of US Dollars, unless otherwise stated

Acquisition of subsidiary. In May 2015, the Group acquired from a third party an additional 80.49% of a company providing transportation and related services in the Khakasia region of 49 million USD. The acquisition increased the Group's shares in the company to 100%.

The fair value of identifiable assets and liabilities of the acquisition at the acquisition date were as follows:

Assets	**60**
Property, plant and equipment	53
Trade accounts and other receivables	7
Liabilities	**17**
Deferred tax liabilities	10
Trade accounts and other payables	7
Net assets	**43**
Company's share in the net assets	43
Add: Goodwill	20
Total cost of investment	63
Total cash consideration	63

Goodwill arose in the acquisition because the consideration paid for the combination included amounts in relation to the benefit of expected synergies, revenue growth and future development of the logistics capacity of Group's operations in the Khakasia region. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

If the acquisition of the company took place on 1 January 2015 the Group's revenue and net profit for the six months ended 30 June 2015 would have been 2,125 million USD and 163 million USD, respectively.

25. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The Group has evaluated subsequent events through 14 July 2015, the date the consolidated interim condensed financial statements were authorised for issue, and determined that no additional disclosures are required.