

JSC SUEK

**Consolidated Interim
Condensed Financial Information
and Review Report**

For the six months ended 30 June 2017



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

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

To the Shareholders and Board of Directors of JSC SUEK

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of JSC SUEK (the "Company") and its subsidiaries (the "Group") as at 30 June 2017, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2017 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Ilya O. Belyatskiy
Director
JSC "KPMG"
Moscow, Russia
12 July 2017



Audited entity: JSC SUEK
Registration No. in the Unified State Register of Legal Entities 1027700151380
Moscow, Russia

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

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

JSC SUEK**Consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2017***Millions of US Dollars*

	Notes	Six months ended 30 June	
		2017	2016
Revenue	5	2,661	1,781
Cost of sales	6	(1,107)	(890)
Distribution costs	7	(975)	(624)
General and administrative expenses	8	(65)	(52)
Other income/(expenses), net		1	(3)
Operating profit		515	212
Finance costs, net	9	(87)	(67)
Foreign exchange loss		(2)	(36)
Profit before tax		426	109
Income tax expense	18	(104)	(13)
Net profit for the period		322	96
Net profit attributable to:			
Ordinary shareholders of the parent		303	63
Non-controlling interests		19	33
Net profit for the period		322	96
Basic and diluted earnings per share (in US Dollars)		1.31	0.27
Other comprehensive income			
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	14	(52)	48
Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax	14	87	(39)
Translation difference		13	205
Total items which may be reclassified to profit or loss in the future		48	214
Total other comprehensive income for the period		48	214
Total other comprehensive income attributable to:			
Ordinary shareholders of the parent		48	204
Non-controlling interests		—	10
Total other comprehensive income for the period		48	214
Total comprehensive income for the period attributable to:			
Ordinary shareholders of the parent		350	266
Non-controlling interests		20	44
Total comprehensive income for the period		370	310

Vladimir Rashevsky
Chief Executive Officer



12 July 2017

 **Nikolay Pilipenko**
Chief Financial Officer

The accompanying notes on pages 7 to 20 are an integral part of this consolidated interim condensed financial information.

JSC SUEK**Consolidated interim condensed statement of financial position as at 30 June 2017***Millions of US Dollars*

	<u>Notes</u>	<u>30 June 2017</u>	<u>31 December 2016</u>
ASSETS			
Non-current assets		6,805	6,621
Property, plant and equipment	10	6,508	6,364
Goodwill		78	78
Deferred tax assets		141	128
Other assets		78	51
Current assets		1,490	1,534
Inventories	11	522	433
Trade accounts and other receivables	12	538	591
Prepaid and recoverable taxes	13	106	122
Derivative financial assets	14	42	58
Cash and cash equivalents		282	330
Total assets		8,295	8,155
EQUITY AND LIABILITIES			
Equity		3,099	2,782
Share capital	15	—	—
Revaluation reserve		3,819	3,880
Hedging reserve		(77)	(112)
Translation reserve		(1,481)	(1,494)
Retained earnings		688	341
Attributable to ordinary shareholders of the parent		2,949	2,615
Non-controlling interests		150	167
Non-current liabilities		3,575	3,323
Long-term borrowings	16	2,570	2,332
Deferred tax liabilities		866	858
Other liabilities		139	133
Current liabilities		1,621	2,050
Short-term borrowings	16	913	976
Trade accounts and other payables	17	514	809
Derivative financial liabilities	14	151	206
Taxes payable		43	59
Total shareholders' equity and liabilities		8,295	8,155

The accompanying notes on pages 7 to 20 are an integral part of this consolidated interim condensed financial information.

JSC SUEK**Consolidated interim condensed statement of cash flows for the six months ended 30 June 2017***Millions of US Dollars*

	Notes	Six months ended 30 June	
		2017	2016
Profit before tax		426	109
Adjustments to profit before tax:			
Depreciation and amortisation	6, 7	201	203
Finance costs	9	87	67
Foreign exchange loss		2	36
Bad debt expense		3	6
Other, net		4	(1)
Changes in working capital items:			
Increase in inventories		(93)	(66)
Decrease in trade accounts and other receivables		59	78
Decrease/(increase) in prepaid and recoverable taxes (other than income tax)		8	(14)
Decrease in trade accounts and other payables		(169)	(205)
Decrease in taxes payable (other than income tax)		(19)	(4)
Net cash inflow from operations		509	209
Income tax paid		(107)	(36)
Net cash inflow from operating activities		402	173
Investing activities			
Purchase of property, plant and equipment		(306)	(175)
Interest received		5	5
Repayment of receivable relating to power business		—	79
Other non-current investments, net		(16)	(11)
Net cash outflow from investing activities		(317)	(102)
Financing activities			
Proceeds from long-term borrowings		688	750
Repayments of long-term borrowings		(380)	(753)
(Repayments of)/proceeds from short-term borrowings, net		(134)	67
Interest and commissions paid		(96)	(74)
Dividends paid to non-controlling interests		(12)	(7)
Acquisition of non-controlling interest		(184)	—
Net cash outflow from financing activities		(118)	(17)
Foreign exchange effect on cash and cash equivalents		(15)	16
Net (decrease)/increase in cash and cash equivalents		(48)	70
Cash and cash equivalents at the beginning of the period		330	104
Cash and cash equivalents at the end of the period		282	174

The accompanying notes on pages 7 to 20 are an integral part of this consolidated interim condensed financial information.

JSC SUEK**Consolidated interim condensed statement of changes in shareholders' equity
for the six months ended 30 June 2017***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 2016	—	6,251	(8,145)	3,509	(33)	(1,773)	2,072	1,881	180	2,061
Net profit for the period	—	—	—	—	—	—	63	63	33	96
Other comprehensive income	—	—	—	—	9	195	—	204	10	214
Transfer to retained earnings	—	—	—	(44)	—	—	43	(1)	1	—
Total comprehensive income for the period	—	—	—	(44)	9	195	106	266	44	310
Transactions with owners:										
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(8)	(8)
Acquisition of non- controlling interests	—	—	—	—	—	—	2	2	3	5
Balance at 30 June 2016	—	6,251	(8,145)	3,465	(24)	(1,578)	2,180	2,149	219	2,368
Balance at 1 January 2017	—	—	—	3,880	(112)	(1,494)	341	2,615	167	2,782
Net profit for the period	—	—	—	—	—	—	303	303	19	322
Other comprehensive income	—	—	—	—	35	13	—	48	—	48
Transfer to retained earnings	—	—	—	(61)	—	—	60	(1)	1	—
Total comprehensive income for the period	—	—	—	(61)	35	13	363	350	20	370
Transactions with owners:										
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(13)	(13)
Acquisition of non- controlling interests (see note 23)	—	—	—	—	—	—	(16)	(16)	(24)	(40)
Balance at 30 June 2017	—	—	—	3,819	(77)	(1,481)	688	2,949	150	3,099

The accompanying notes on pages 7 to 20 are an integral part of this consolidated interim condensed financial information.

JSC SUEK

Notes to the consolidated interim condensed financial information for the six months ended 30 June 2017

Millions of US Dollars, unless otherwise stated

1. GENERAL INFORMATION

Organisation and principal activities. Joint Stock Company (“JSC”) “Siberian Coal Energy Company” (“SUEK” or the “Company”) was founded on 1 December 1999. The Company and its subsidiaries are collectively referred to as the Group. The address of registered office is Dubininskaya st. 53, bld. 7, Moscow, Russian Federation. The principal activity of the Group is the extraction and sale of coal.

JSC SUEK became the parent company of the Group in September 2016 after the reorganisation of SUEK LTD that included the spin-off of a holding company SUEK HOLDINGS LTD owning 100% shares in JSC SUEK and purchase of 100% shares of SUEK LTD by JSC SUEK.

SUEK HOLDINGS LTD is the immediate parent company of JSC SUEK.

A company that holds business interests beneficially for Mr. Andrey Melnichenko owns 100% of Linea Ltd registered in Bermuda, which in turn owns 100% of AIM Capital SE, registered in the Republic of Cyprus, which in its turn owns 92.2% of SUEK Holdings Ltd registered in the Republic of Cyprus.

2. BASIS OF PRESENTATION

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

This consolidated interim condensed financial information does not contain all the information required for presentation in a complete set of IFRS financial statements and therefore should be read in conjunction with JSC SUEK’s consolidated annual financial statements for the year ended 31 December 2016.

The consolidated interim condensed financial information of the Company reflects the predecessor financial results of SUEK LTD and its subsidiaries. Comparatives of this consolidated interim condensed financial information are presented as if the change in corporate structure had occurred at the beginning of 2016 as there was no substantive economic change, except for the statement of changes in shareholders’ equity.

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

- 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 subsidiaries of the Group is the currency of the primary economic environment where these entities operate. The functional currency of foreign trading subsidiaries and predominantly export-oriented Russian subsidiaries is US Dollar (“USD”). The functional currency of the Company and Russian subsidiaries that are not predominantly export-oriented is the Russian Rouble.

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

JSC SUEK

Notes to the consolidated interim condensed financial information for the six months ended 30 June 2017

Millions of US Dollars, unless otherwise stated

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

	USD	
	2017	2016
Period end (year end for 2016)	59.09	60.66
Average rate for 6 months ended 30 June	57.99	70.26

Adoption of new and revised standards and interpretations

The following amendments to standards became effective for the Group from 1 January 2017:

- *Amendments to IAS 12 “Income Taxes”* (effective for annual periods beginning on or after 1 January 2017 with earlier application permitted) clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment does not have a significant impact on the Group’s consolidated financial statements.
- *Amendments to IAS 7 “Statement of Cash Flows”* (effective for annual periods beginning on or after 1 January 2017 with earlier application permitted) require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its consolidated interim condensed financial information, but will disclose additional information in its annual consolidated financial statements for the year ending 31 December 2017.

A number of new standards and amendments to standards are not yet effective at 30 June 2017, and have not been early adopted:

- *IFRS 9 “Financial Instruments”* (effective for annual periods beginning after 1 January 2018 with earlier application permitted) supersedes IAS 39 “Financial Instruments: Recognition and Measurement” and introduces new classification and measurement requirements, a single, forward-looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting.
- *IFRS 15 “Revenue from contracts with customers”* (effective for annual periods beginning after 1 January 2018 with earlier application permitted) outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers.
- *IFRS 16 “Leases”* (effective for annual periods beginning after 1 January 2019 with earlier application permitted, if IFRS 15 is also adopted) supersedes IAS 17 “Leases” and provides a new approach to lease accounting that eliminates the classification of leases as either operating leases or finance leases for a lessee and requires a lessee to recognise assets and liabilities for the rights and obligations created by leases.
- *IFRIC 22 “Foreign currency transactions and advance consideration”* (effective for annual periods beginning on or after 1 January 2018 with earlier application permitted) provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance.

The Group is currently assessing the impact of these new standards and amendments on the consolidated financial statements.

JSC SUEK

Notes to the consolidated interim condensed financial information for the six months ended 30 June 2017

Millions of US Dollars, unless otherwise stated

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.

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 2016.

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 based on 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 are coal mining, ports and logistics, sales and distribution and corporate segments. The coal mining segment represents the operations of the coal mining companies including extraction and washing; the ports and logistics segment includes railroad transportation assets and ports; the sales and distribution segment represents sales and distribution companies and corporate segment includes holding companies. Segment assets are allocated based on the operations of the segment and the physical location of the asset.

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

Operating segment information for the Group at 30 June 2017 and for the six months then ended is as follows:

	<u>Coal mining</u>	<u>Ports and logistics</u>	<u>Sales and distribution</u>	<u>Corporate</u>	<u>Inter- segment elimination</u>	<u>Total</u>
<i>Segment revenue and profitability</i>						
Segment external revenues	547	51	2,063	—	—	2,661
Inter-segment revenues	1,620	831	—	33	(2,484)	—
Segment expenses	<u>(1,645)</u>	<u>(788)</u>	<u>(2,158)</u>	<u>(39)</u>	<u>2,484</u>	<u>(2,146)</u>
Operating profit/(loss)	<u>522</u>	<u>94</u>	<u>(95)</u>	<u>(6)</u>	<u>—</u>	<u>515</u>
Depreciation and amortisation	(182)	(18)	—	(1)	—	(201)
Interest expense	(49)	(6)	(4)	(78)	57	(80)
Interest income	1	7	—	55	(57)	6
Profit/(loss) before tax	463	97	(96)	(38)	—	426
Income tax (expense)/ benefit	<u>(99)</u>	<u>(17)</u>	<u>6</u>	<u>6</u>	<u>—</u>	<u>(104)</u>
Net profit/(loss) for the period	<u>364</u>	<u>80</u>	<u>(90)</u>	<u>(32)</u>	<u>—</u>	<u>322</u>
Capital expenditures incurred during the period	215	97	—	1	—	313
<i>Segment assets and liabilities</i>						
Total segment assets	<u>8,466</u>	<u>848</u>	<u>1,319</u>	<u>774</u>	<u>(3,112)</u>	<u>8,295</u>
Total segment liabilities	<u>3,102</u>	<u>210</u>	<u>705</u>	<u>4,291</u>	<u>(3,112)</u>	<u>5,196</u>

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

Operating segment information for the Group at 30 June 2016 and for the six months then ended is as follows:

	<u>Coal mining</u>	<u>Ports and logistics</u>	<u>Sales and distribution</u>	<u>Corporate</u>	<u>Inter- segment elimination</u>	<u>Total</u>
<i>Segment revenue and profitability</i>						
Segment external revenues	481	32	1,268	—	—	1,781
Inter-segment revenues	854	589	—	23	(1,466)	—
Segment expenses	<u>(1,216)</u>	<u>(539)</u>	<u>(1,267)</u>	<u>(13)</u>	<u>1,466</u>	<u>(1,569)</u>
Operating profit	<u>119</u>	<u>82</u>	<u>1</u>	<u>10</u>	<u>—</u>	<u>212</u>
Depreciation and amortisation	(187)	(14)	—	(2)	—	(203)
Interest expense	(40)	(5)	(1)	(56)	43	(59)
Interest income	1	5	—	43	(43)	6
Profit/(loss) before tax	50	94	(6)	(29)	—	109
Income tax (expense)/ benefit	<u>(4)</u>	<u>(14)</u>	<u>3</u>	<u>2</u>	<u>—</u>	<u>(13)</u>
Net profit/(loss) for the period	<u>46</u>	<u>80</u>	<u>(3)</u>	<u>(27)</u>	<u>—</u>	<u>96</u>
Capital expenditures incurred during the period	132	24	—	—	—	156

Operating segment information of the Group at 31 December 2016 is as follows:

	<u>Coal mining</u>	<u>Ports and logistics</u>	<u>Sales and distribution</u>	<u>Corporate</u>	<u>Inter- segment elimination</u>	<u>Total</u>
<i>Segment assets and liabilities</i>						
Total segment assets	<u>8,335</u>	<u>767</u>	<u>1,086</u>	<u>723</u>	<u>(2,756)</u>	<u>8,155</u>
Total segment liabilities	<u>3,071</u>	<u>136</u>	<u>637</u>	<u>4,285</u>	<u>(2,756)</u>	<u>5,373</u>

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

	Six months ended 30 June	
	2017	2016
5. REVENUE		
Coal sales	2,476	1,723
Pacific region	1,207	751
Atlantic region	728	495
Russian Federation	541	477
Petroleum coke sales	103	14
Other	82	44
Total	2,661	1,781
6. COST OF SALES		
Coal and petroleum coke purchased from third parties	299	194
Labour	231	176
Depreciation and amortisation	187	190
Consumables and spares	190	157
Repair and maintenance services	44	38
Purchased power	33	27
Transportation services	30	21
Drilling and blasting services	22	16
Tax on mining	19	13
Personnel transportation services	15	12
Fire and rescue brigade expenses	12	9
Property tax	8	7
Land rent	7	5
Other	10	25
Total	1,107	890
7. DISTRIBUTION COSTS		
Railway services	618	373
Freight	134	99
Stevedoring from third parties	84	57
Rent of rail cars	71	42
Labour	22	18
Depreciation and amortisation	14	13
Repair and maintenance services	13	9
Property tax	2	1
Other	17	12
Total	975	624

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

	Six months ended 30 June	
	2017	2016
8. GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries	40	31
Consulting, legal, audit and other professional services	11	8
Charitable donations	8	6
Office rent	2	2
Other	4	5
Total	65	52
9. FINANCE COSTS, NET		
Interest expense	80	59
Bank commissions and charges	9	11
Unwinding of discount on provisions	4	2
Change in fair value of derivatives, other than hedging	—	1
Interest income	(6)	(6)
Total	87	67

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral rights	Buildings, structures and utilities	Machinery, equipment, transport and other	Construc- tion-in- progress	Total
Net book value at 1 January 2016	3,960	563	703	156	5,382
Additions	—	—	—	156	156
Transfers	—	24	78	(102)	—
Disposals	(2)	(2)	—	(3)	(7)
Depreciation and amortisation	(62)	(42)	(103)	—	(207)
Effect of translation to presentation currency	205	5	18	7	235
Net book value at 30 June 2016	4,101	548	696	214	5,559
Net book value at 1 January 2017	4,675	611	870	208	6,364
Additions	—	—	—	313	313
Transfers	—	38	177	(215)	—
Disposals	—	—	(3)	(1)	(4)
Depreciation and amortisation	(85)	(27)	(101)	—	(213)
Effect of translation to presentation currency	39	1	7	1	48
Net book value at 30 June 2017	4,629	623	950	306	6,508

Group assets include advances issued for capital expenditures of 92 million USD (31 December 2016 – 62 million USD).

If mineral rights had been carried at historical cost, the net book value of property, plant and equipment at 30 June 2017 would have been 2,366 million USD (31 December 2016 – 2,157 million USD).

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

	<u>30 June 2017</u>	<u>31 December 2016</u>
11. INVENTORIES		
Coal stock	341	273
Consumable stores and materials	201	175
Less: Allowance for obsolescence	<u>20</u>	<u>15</u>
Net consumable stores and materials	<u>181</u>	<u>160</u>
Total	<u>522</u>	<u>433</u>

12. TRADE ACCOUNTS AND OTHER RECEIVABLES

Trade accounts receivable	411	460
Advances issued	92	116
Other receivables	<u>58</u>	<u>36</u>
Subtotal	561	612
Less: Allowance for doubtful debts	<u>23</u>	<u>21</u>
Total	<u>538</u>	<u>591</u>

13. PREPAID AND RECOVERABLE TAXES

Value-added tax recoverable	82	88
Income tax receivable	17	28
Prepaid other taxes	<u>7</u>	<u>6</u>
Total	<u>106</u>	<u>122</u>

14. DERIVATIVE FINANCIAL INSTRUMENTS

	<u>30 June 2017</u>		<u>31 December 2016</u>	
	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Derivative assets</u>	<u>Derivative liabilities</u>
Coal forward contracts – cash flow hedges	37	118	54	173
Currency forward contracts – cash flow hedges	—	30	—	33
Other derivatives	<u>5</u>	<u>3</u>	<u>4</u>	<u>—</u>
Total	<u>42</u>	<u>151</u>	<u>58</u>	<u>206</u>

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

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

	<u>6 months ended 30 June 2017</u>		<u>6 months ended 30 June 2016</u>	
	<u>Loss recognised in comprehensive income</u>	<u>Loss recycled from comprehensive income to profit or loss</u>	<u>Gain recognised in comprehensive income</u>	<u>Gain recycled from comprehensive income to profit or loss</u>
Effective portion of changes in fair value of cash flow hedges	(57)	95	56	(44)
Deferred tax	5	(8)	(8)	5
Total	(52)	87	48	(39)

15. SHARE CAPITAL AND RESERVES

	<u>Number of shares, in thousands</u>	
	<u>30 June 2017</u>	<u>31 December 2016</u>
Authorised share capital		
Ordinary shares	<u>232,060</u>	<u>232,060</u>
Issued share capital		
Ordinary shares	<u>232,060</u>	<u>232,060</u>
Total	<u>232,060</u>	<u>232,060</u>

Ordinary shares have a par value of 0.005 RUB. All issued shares were fully paid.

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated***16. BORROWINGS**

	<u>Effective interest rate</u>	<u>30 June 2017</u>	<u>31 December 2016</u>
<i>Long-term borrowings</i>			
Variable rate borrowings		2,934	2,642
USD-denominated borrowings	3M LIBOR + 1.3% to 1M LIBOR + 4.2%	2,809	2,528
EUR-denominated borrowings	6M EURIBOR + 0.7% to 6M EURIBOR + 2.25%	125	114
Fixed rate borrowings		475	442
USD-denominated borrowings	2.85%	192	192
RUB-denominated bonds	8.25% to 10.5%	178	173
RUB-denominated borrowings	9.9% to 14%	105	77
Subtotal		3,409	3,084
Less: Current portion of long-term borrowings		839	752
Total long-term borrowings		2,570	2,332
<i>Short-term borrowings</i>			
Variable rate borrowings		9	70
USD-denominated borrowings	2.38% to 3.35%	9	70
Fixed rate borrowings		65	154
USD-denominated borrowings	1.7% to 1.98%	62	150
Other borrowings		3	4
Subtotal		74	224
Current portion of long-term borrowings		839	752
Total short-term borrowings		913	976

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.

JSC SUEK**Notes to the consolidated interim condensed financial information
for the six months ended 30 June 2017***Millions of US Dollars, unless otherwise stated*

	30 June 2017	31 December 2016
17. TRADE ACCOUNTS AND OTHER PAYABLES		
Trade accounts payable and accruals	180	147
Advances from customers	130	201
Payables for shares of SUEK LTD (see note 1)	97	96
Accrual for vacation payments	48	42
Wages and salaries	36	38
Payables for acquisition of a non-controlling interest	—	144
Promissory notes payable	—	75
Other creditors	23	66
Total	514	809
	Six months ended 30 June	
	2017	2016
18. TAXATION		
Current income tax expense	115	36
Deferred income tax benefit	(11)	(23)
Income tax expense	104	13

The reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, 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:

Profit before tax	426	109
Theoretical income tax expense at 20% (2016 – 12.5%)	85	14
Impact of specific tax rates in Russian Federation	—	3
Impact of specific tax rates in Switzerland	11	(2)
Tax effect of non-deductible expenses/(income)	8	(2)
Total income tax expense	104	13

The comparative information was calculated at the rate effective in the Republic of Cyprus (see note 1).

19. 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.

JSC SUEK

Notes to the consolidated interim condensed financial information for the six months ended 30 June 2017

Millions of US Dollars, unless otherwise stated

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

	Six months ended 30 June	
	2017	2016
Coal sales to Siberian Generating Company (“SGC”) Group	257	250
Coal sales to DEC Group, an associate of a company with the same principal ultimate beneficiary	61	59
Other coal sales	17	—
Other revenue from EuroChem Group	1	11
Interest income	1	2
Rent of railcars from a company with the same principal ultimate beneficiary	14	12
Other purchases	13	13
Interest expense	2	—
Remuneration of the Board of Directors and the Management Board members	5	3

The outstanding balances with related parties are as follows:

	30 June	31 December
	2017	2016
Payables for shares of SUEK LTD to a company with the same principal ultimate beneficiary (see note 1)	97	96
Trade accounts and other receivables from SGC Group	36	6
Trade accounts and other receivables from DEC Group	10	20
Other receivables	20	—
Payables for acquisition of a non-controlling interest to EuroChem Group	—	144

20. COMMITMENTS

Capital commitments. Management has approved the following capital expenditures:

	30 June	31 December
	2017	2016
Contracted	498	353
Not yet contracted	137	110
Total	635	463

21. 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.

JSC SUEK

Notes to the consolidated interim condensed financial information for the six months ended 30 June 2017

Millions of US Dollars, unless otherwise stated

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 information reflects 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.

JSC SUEK

Notes to the consolidated interim condensed financial information for the six months ended 30 June 2017

Millions of US Dollars, unless otherwise stated

22. 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 2017, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying 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 2016.

23. TRANSACTIONS WITH NON-CONTROLLING INTEREST

In May and June 2017 the Group acquired a total 9.38% of PJSC “Murmanskiy Morskoi Torgovyi Port” for 40 million USD from third parties which resulted in a decrease in non-controlling interest by 24 million USD and a decrease in retained earnings by 16 million USD.