JSC SUEK

Consolidated Interim
Condensed Financial Information
and Review Report

For the six months ended 30 June 2017

KPMG

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*.

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG МОСКВА

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

	Notes	30 June 2017	31 December 2016
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.

Consolidated interim condensed statement of cash flows for the six months ended 30 June 2017

Millions of US Dollars

		Six months ended 30 June	
	Notes	**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.

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*”.

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.

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.

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:

	Coal mining	**Ports and logistics**	**Sales and distribution**	**Corporate**	**Inter-segment elimination**	**Total**
Segment revenue and profitability						
Segment external revenues	547	51	2,063	—	—	**2,661**
Inter-segment revenues	1,620	831	—	33	(2,484)	—
Segment expenses	(1,645)	(788)	(2,158)	(39)	2,484	**(2,146)**
Operating profit/(loss)	**522**	**94**	**(95)**	**(6)**	—	**515**
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	(99)	(17)	6	6	—	**(104)**
Net profit/(loss) for the period	**364**	**80**	**(90)**	**(32)**	—	**322**
Capital expenditures incurred during the period	215	97	—	1	—	**313**
Segment assets and liabilities						
Total segment assets	**8,466**	**848**	**1,319**	**774**	**(3,112)**	**8,295**
Total segment liabilities	**3,102**	**210**	**705**	**4,291**	**(3,112)**	**5,196**

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:

	Coal mining	Ports and logistics	Sales and distribution	Corporate	Inter-segment elimination	Total
Segment revenue and profitability						
Segment external revenues	481	32	1,268	—	—	**1,781**
Inter-segment revenues	854	589	—	23	(1,466)	—
Segment expenses	(1,216)	(539)	(1,267)	(13)	1,466	**(1,569)**
Operating profit	**119**	**82**	**1**	**10**	**—**	**212**
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	(4)	(14)	3	2	—	**(13)**
Net profit/(loss) for the period	**46**	**80**	**(3)**	**(27)**	**—**	**96**
Capital expenditures incurred during the period	132	24	—	—	—	**156**

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

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

Millions of US Dollars, unless otherwise stated

5. REVENUE

	Six months ended 30 June	
	2017	**2016**
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

	2017	2016
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

	2017	2016
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**

Millions of US Dollars, unless otherwise stated

	Six months ended 30 June	
	2017	**2016**

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
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

	2017	2016
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).

Millions of US Dollars, unless otherwise stated

11. INVENTORIES

	30 June 2017	31 December 2016
Coal stock	341	273
Consumable stores and materials	201	175
Less: Allowance for obsolescence	20	15
Net consumable stores and materials	181	160
Total	**522**	**433**

12. TRADE ACCOUNTS AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
Trade accounts receivable	411	460
Advances issued	92	116
Other receivables	58	36
Subtotal	**561**	**612**
Less: Allowance for doubtful debts	23	21
Total	**538**	**591**

13. PREPAID AND RECOVERABLE TAXES

	30 June 2017	31 December 2016
Value-added tax recoverable	82	88
Income tax receivable	17	28
Prepaid other taxes	7	6
Total	**106**	**122**

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	6 months ended 30 June 2017		6 months ended 30 June 2016	
	Loss recognised in comprehensive income	Loss recycled from comprehensive income to profit or loss	Gain recognised in comprehensive income	Gain recycled from comprehensive income to profit or loss
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

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

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

Millions of US Dollars, unless otherwise stated

16. BORROWINGS

	Effective interest rate	30 June 2017	31 December 2016
Long-term borrowings			
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**
Short-term borrowings			
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.

Millions of US Dollars, unless otherwise stated

17. TRADE ACCOUNTS AND OTHER PAYABLES

	30 June 2017	31 December 2016
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**

18. TAXATION

	Six months ended 30 June	
	2017	2016
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:

	2017	2016
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.

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 2017	**31 December 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 2017	**31 December 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.

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.

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.