Public Joint Stock Company
“Kuzbasskaya Toplivnaya Company”
(trading as “KTK”)

Consolidated Financial Statements
for the 2016,
and Auditors’ Report of Independent auditors

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Independent Auditors' Report

To the Shareholders and Board of Directors PJSC "Kuzbasskaya Toplivnaya Company"

Opinion

We have audited the consolidated financial statements of PJSC "Kuzbasskaya Toplivnaya Company" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade and other receivables	
Please refer to the Note 25 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
As was disclosed in Note 25 in the consolidated financial statements, trade and other receivables of the Group includes receivables from two Polish counterparties in the total amount of RUB 690 million before allowance. These receivables are past due more than 180 days. The Group recognized an impairment in the total amount of RUB 589 million in relation to these receivables on the base of assessment of its recoverability. Since the assessment of recoverability is subjective and requires the use of professional judgement, this question was the key audit matter.	Our audit procedures included testing of assumptions, used by the Directors in the assessment of recoverability of receivables. We considered externally available information, current status of legal proceedings initiated against those counterparties, their financial position and our own knowledge of recent bad debt experience in this segment. We also considered the adequacy of the Group's disclosures in this area.

Other Information

Management is responsible for the other information. The other information comprises Annual report but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or

conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Ilya Belyatski

JSC "KPMG"

Moscow, Russia

31 March 2017

	Note	31 December 2016 Mln RUB	31 December 2015 Mln RUB
ASSETS			
Property, plant and equipment	14	12 616	12 316
Exploration and evaluation assets		80	42
Other non-current assets		122	27
Deferred tax assets	15	325	422
Non-current assets		**13 143**	**12 807**
Inventories	16	1 510	2 225
Trade and other receivables	17	3 425	3 059
Prepayments and deferred expenses	18	709	269
Cash and cash equivalents	19	3 837	3 390
Current assets		**9 481**	**8 943**
Total assets		**22 624**	**21 750**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 51.

	Note	31 December 2016 Mln RUB	31 December 2015 Mln RUB
Equity			
Share capital	20	20	20
Additional paid-in capital		2 829	2 829
Retained earnings		6 869	6 271
Total equity attributable to equity holders of the Company		**9 718**	**8 962**
Non-controlling interest		1	(3)
Total equity		**9 719**	**9 117**
Liabilities			
Loans and borrowings	22	5 946	7 379
Provisions and other liabilities	23	660	549
Deferred tax liabilities	15	889	691
Non-current liabilities		**7 495**	**8 619**
Loans and borrowings	22	3 378	1 653
Trade and other payables	24	1 856	2 189
Provisions and other liabilities	23	176	172
Current liabilities		**5 410**	**4 014**
Total liabilities		**12 905**	**12 633**
Total equity and liabilities		**22 624**	**21 750**

These consolidated financial statements were approved by management on 31 March 2017 and were signed on its behalf by:

General Director

Eduard V. Alexeenko

Deputy General Director
for Economics and Finance

Ivan A. Artemenko

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 51.

	Note	2016 Mln RUB	2015 Mln RUB
Revenue	6	**26 863**	**24 994**
Cost of sales	7	(23 220)	(20 932)
Gross profit		**3 643**	**4 062**
Distribution expenses	8	(1 294)	(1 305)
Administrative expenses	9	(1 077)	(1 107)
Other expenses, net	10	30	(96)
Profit from operating activities		**1 302**	**1 554**
Finance income	12	288	356
Finance costs	12	(756)	(1 563)
Profit before income tax		**834**	**347**
Income tax expense		(187)	(310)
Profit for the year	13	**647**	**37**
Profit attributable to:			
Equity holders of the Company		598	6
Minority participants in LLC subsidiaries		25	30
Non-controlling interests		24	1
		647	**37**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Defined benefit plan actuarial loss, net of income tax		(5)	(5)
Items that are or will be reclassified to profit or loss			
Reclassification of losses on cash flow hedge, net of income tax		-	405
Total comprehensive income for the year		**642**	**437**
Total comprehensive income attributable to:			
Equity holders of the Company		593	406
Minority participants in LLC subsidiaries		25	30
Non-controlling interests		24	1
		642	**437**
Earnings per share			
Basic and diluted earnings per share (RUB)	21	6.02	0.06

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 51.

Mln RUB	Attributable to shareholders of the Company						
	Share capital	Additional paid-in capital	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	**20**	**2 829**	**(405)**	**6 518**	**8 962**	**(4)**	**8 958**
Profit for the year	-	-	-	6	6	1	7
Net actuarial losses on retirement benefit liabilities, net of income tax	-	-	-	(5)	(5)	-	(5)
Reclassification of losses on cash flow hedge, net of income tax	-	-	405	-	405	-	405
Total comprehensive income for the year	**-**	**-**	**405**	**1**	**406**	**1**	**407**
Dividends paid	-	-	-	(248)	(248)	-	(248)
Balance at 31 December 2015	**20**	**2 829**	**-**	**6 271**	**9 120**	**(3)**	**9 117**
Profit for the year	-	-	-	598	598	24	622
Net actuarial losses on retirement benefit liabilities, net of income tax	-	-	-	(5)	(5)	-	(5)
Total comprehensive income for the year	**-**	**-**	**-**	**593**	**593**	**24**	**617**
Disposal of non-controlling interests	-	-	-	5	5	(20)	(15)
Balance at 31 December 2016	**20**	**2 829**	**-**	**6 869**	**9 718**	**1**	**9 719**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 51.

Mln RUB	2016	2015
OPERATING ACTIVITIES		
Profit for the year	647	37
Adjustments for:		
Depreciation and amortisation	1 491	1 233
Reversal of impairment losses	-	(13)
Gain on disposal of property, plant and equipment	(165)	(77)
Net finance costs	468	1 207
Realized foreign exchange cash flow hedge	-	506
Income tax expense	187	310
Cash flows from operating activities before changes in working capital and provisions	**2 628**	**3 203**
Changes in:		
- Inventories	715	(359)
- trade and other receivables	(606)	491
- prepayments for current assets	(440)	(110)
- trade and other payables	(276)	(194)
- provision for site restoration and employee benefits	(5)	41
Cash flows from operating activities before income tax and interest paid	**2 016**	**3 072**
Income taxes paid	(46)	(356)
Interest paid	(685)	(725)
Interest received on cash and cash equivalents	99	327
Net cash flows from operating activities	**1 384**	**2 318**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	177	77
Loans issued	(14)	(300)
Proceeds from loans issued	30	335
Acquisition of promissory notes	(20)	(101)
Proceeds from promissory notes	15	110
Acquisition of property, plant, equipment, intangible assets and exploration and evaluation assets	(1 741)	(970)
Cash flows used in investing activities	**(1 553)**	**(849)**
FINANCING ACTIVITIES		
Proceeds from borrowings	18 330	4 882
Repayment of borrowings	(16 995)	(11 125)
Acquisition of minority non-controlling interests	(16)	-
Income paid to minority participant in LLC entities	(22)	(15)
Dividends paid	-	(248)
Cash flows from/(used in) financing activities	**1 297**	**(6 506)**
Net increase/(decrease) in cash and cash equivalents	**1 128**	**(5 037)**
Cash and cash equivalents at the beginning of year	3 390	7 332
Effect of exchange rate fluctuations on cash and cash equivalents	(681)	1 095
Cash and cash equivalents at the end of year	**3 837**	**3 390**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 51.

1 Background

(a) Corporate information

Public Joint Stock Company "Kuzbasskaya Toplivnaya Company" (previously Open Joint Stock Company "Kuzbasskaya Toplivnaya Company", "the Company" or "KTK") and its subsidiaries (the "Group") comprise Russian joint stock companies and limited liability companies, as defined in the Civil Code of the Russian Federation, and companies located abroad.

The most significant subsidiaries of the Company are listed below:

	Country of incorporation	Principal activity	31 December 2016 Ownership/ voting share	31 December 2015 Ownership/ voting share
LLC TEK Meret	Russia	Railroad transportation services	100%	100%
LLC Kuzbasstoplivosbyt	Russia	Sale of coal	100%	100%
JSC Kaskad Energo	Russia	Electricity generation	100%	100%
JSC ATK	Russia	Sale of coal	100%	51%
LLC Transugol	Russia	Sale of coal	100%	100%
LLC NTK	Russia	Sale of coal	51%	51%
LLC Kaskad Geo	Russia	Land lease	100%	100%
KTK Polska Sp. z o.o.	Poland	Sale of coal	100%	100%
KTK Overseas AG	Switzerland	Sale of coal	100%	100%

The Company was registered under the Russian law on 4 April 2000. It's shares are quoted on the PJSC Moscow Exchange since May 2010. The registered office of the Company is: 4, 50 Let Oktyabrya street, Kemerovo, 650000.

The Group's principal activities are the extraction of thermal coal from open-pit mines located in the territory of the Kemerovo region in the Russian Federation, wholesale supply of coal to customers in the Russian Federation as well as abroad, and retail sales of coal through its distribution networks located in the Kemerovo, Omsk, Novosibirsk, Altai regions and abroad in Poland.

Additionally, the Group is engaged in re-sale of coal purchased from other coal producers, electricity, heat power and hot water generation, storage and transportation services.

The Company's ultimate controlling party is Mr. Igor Yuryevich Prokudin.

The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

(b) Russian business environment

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 conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated 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.

2 Basis of accounting

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements comply with Federal Law No. 208-FZ "On consolidated Financial Reporting", which provides the legal basis for certain entities for mandatory preparation of financial statements in accordance with IFRSs as issued by the IASB and subsequently endorsed for use in the Russian Federation. As at 31 December 2016, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia.

3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and all of its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, except where otherwise indicated.

4 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty, which have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

- Note 14 – Property, plant and equipment;
- Note 15(d) – Unrecognised deferred tax assets
- Note 23 – Provisions and other liabilities;
- Note 25(b)(i) – Credit risk;
- Note 28 – Contingencies;

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the 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 in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5 Reportable segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the General director, who is the Group's chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Domestic sales of produced coal*. Includes distributing own coal production in Russia.
- *Export sales of produced coal.* Includes distributing own coal production in foreign countries.
- *Resale of purchased coal.* Includes distributing coal purchased for resale from other suppliers in Russia and foreign countries.
- *Other operations.* Includes providing different types of services such as transportation services, storage services, services to generating, transferring and distributing of electricity, heat power and hot water in Russia.

(i) Major customers

In 2016 the revenue from two customers represents more than 10% of the Group's total revenue, amounting to RUB 11 178 million (2015: RUB 10 752 million) and RUB 3 159 million (2015: RUB 2 869 million), respectively.

(ii) Geographical information

The Group operates in three principal geographical areas: Russia, European Union and Asia, such division has been based on the geographic location of Groups' customers.

	Revenue		**Trade receivables**		**Advances received**	
Mln RUB	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Russia	6 478	6 566	1 018	823	48	34
European Union	7 167	6 141	920	1 211	-	-
Asia	13 218	12 287	326	60	-	199
Total	**26 863**	**24 994**	**2 264**	**2 094**	**48**	**233**

The vast majority of non-current assets of the Group are located in Russia.

(iii) Financial information

Management selected gross profit as the measure of the segment's result. The segmented financial information is prepared and reported to general director regularely at least quarterly.

2016 **Mln RUB**	**Domestic sales of produced coal**	**Export sales of produced coal**	**Resale of purchased coal**	**Other operations**	**Total**
Revenue	4 301	20 186	1 621	755	26 863
Cost of sales	(3 613)	(17 508)	(1 540)	(559)	(23 220)
Gross profit and segment result	**688**	**2 678**	**81**	**196**	**3 643**
Unallocated expenses					
Other operating expenses					(2 341)
Net finance costs					(468)
Profit before income tax					**834**
Trade receivables	685	1 235	240	104	2 264
Advances received	(35)	-	(12)	(1)	(48)

2015 **Mln RUB**	**Domestic sales of produced coal**	**Export sales of produced coal**	**Resale of purchased coal**	**Other operations**	**Total**
Revenue	4 407	17 775	2 145	667	24 994
Cost of sales	(3 354)	(15 206)	(1 974)	(398)	(20 932)
Gross profit and segment result	**1 053**	**2 569**	**171**	**269**	**4 062**
Unallocated expenses					
Other operating expenses					(2 508)
Net finance costs					(1 207)
Profit before income tax					**347**
Trade receivables	545	1 228	230	91	2 094
Advances received	(16)	(197)	(13)	(7)	(233)

6 Revenue

Mln RUB	2016	2015
Sales of coal	25 491	23 730
Compensation from the government	695	647
Sales of electrical and heat power and hot water	347	287
Provision of transportation and storage services	200	190
Other revenue	130	140
	26 863	**24 994**

Compensation from government refers to amounts received from the local authorities as part of the consideration for coal sold to local municipalities and private individuals at regulated prices, and for services provided to private individuals at regulated tariffs. Such compensation is due to the Group in accordance with the Russian legislation.

7 Cost of sales

Mln RUB	2016	2015
Railway tariff and transportation services	13 181	10 903
Fuel	1 845	1 900
Personnel costs	1 750	1 609
Depreciation and amortisation	1 382	1 123
Coal purchased	1 062	1 899
Repair and maintenance	789	824
Spare parts	760	885
Extraction, processing and coal sorting services	683	698
Other services	587	540
Mining and environmental taxes	333	323
Other materials	243	263
Other costs	17	15
Change in provision for site restoration	(10)	41
Change in coal in stock and transit	598	(91)
	23 220	**20 932**

8 Distribution expenses

Mln RUB	2016	2015
Personnel costs	545	527
Services	545	536
Depreciation and amortisation	87	88
Materials	80	111
Other distribution expenses	37	43
	1 294	**1 305**

9 Administrative expenses

Mln RUB	2016	2015
Personnel costs	690	670
Services	174	165
Taxes other than income tax	131	180
Materials	25	30
Depreciation and amortisation	22	22
Other administrative expenses	35	40
	1 077	**1 107**

10 Other incomes and expenses

Mln RUB	2016	2015
Gain on disposal of property, plant and equipment	165	77
Income from fines and penalties	14	2
Charity and welfare	(91)	(99)
Compensation of damage	(58)	(89)
Reversal /(recognition) of impairment losses on operating assets	-	13
	30	**(96)**

11 Personnel costs

Mln RUB	2016	2015
Wages, salaries and other payments to personnel	2 321	2 177
Social charges	656	621
Expenses related to defined benefit plans	8	8
	2 985	**2 806**

12 Finance income and finance costs

Mln RUB	2016	2015
Interest income on cash and cash equivalents	99	327
Interest income on loans issued and receivables	4	29
Forex exchange gain	185	-
Finance income	288	356
Interest expense	(683)	(702)
Unwinding of discount on provision for site restoration and on employee benefits	(38)	(35)
Unwinding of discount on long-term interest-free loans received	(13)	(14)
Foreign exchange loss	-	(271)
Allowance for doubtful debts	(22)	(541)
Finance costs	(756)	(1 563)
	(468)	**(1 207)**

In the reporting year no interest expenses were capitalized to any assets. In 2015, additionally to interest expense shown above, the Group has capitalised RUB 4 million to property, plant and equipment under construction (see note 14) and RUB 12 million to exploration and evaluation assets using a capitalisation rate of 6.2 %.

13 Income tax expense

The Group's companies, except the Polish subsidiary, are residents of Russian Federation in purpose of income tax payment. The applied income tax rate for those companies is 20% (2015: 20%). The income tax rate for the Polish subsidiary is 19% (2015: 19%).

Mln RUB	2016	2015
Current tax expense		
Current year	(71)	(413)
Adjustment for prior years	180	44
	109	(369)
Deferred tax expense		
Origination and reversal of temporary differences	(296)	59
	(296)	**59**
	(187)	**(310)**

Reconciliation of effective tax rate:

	2016		2015	
	Mln RUB	%	Mln RUB	%
Profit before income tax	834	100	347	100
Income tax at applicable tax rate	(167)	(20)	(69)	(20)
Effect of income tax rates in foreign jurisdictions	6	1	(14)	(4)
Effect of tax losses for which no deferred tax asset was recognized	(31)	(4)	(99)	(29)
Non-deductible expenses effect	(175)	(21)	(172)	(49)
Adjustment for prior years	180	22	44	13
	(187)	**(22)**	**(310)**	**(89)**

In the reporing year, based on the Article 259.3 of the Tax Code of the Russian Federation, in the tax accounting of PJSC KTK for 2012-2015 adjustments were made for depreciation charges for fixed assets, operated at production sites registered as hazardous industrial facilities. As a result, the Company filed updated tax returns on income tax, which resulted in the occurrence of taxable temporary differences and adjustment of income tax for the respective periods in the amount of RUB 162 million.

(a) Income tax recognised in other comprehensive income

	2016			2015		
Mln RUB	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Defined benefit plan actuarial (loss)/gain	(6)	1	(5)	(6)	1	(5)
Reclassification of losses on cash flow hedges	-	-	-	506	(101)	405
	(6)	**1**	**(5)**	**500**	**(100)**	**400**

14 Property, plant and equipment

Depreciation expense has been charged to cost of sales, distribution and administrative expenses according to functionality of the fixed assets. The allocation of depreciation charge is presented in the table below:

Mln RUB	2016	2015
Cost of sales	1 373	1 120
Distribution expenses	85	88
Administrative expenses	22	22
	1 480	**1 230**

In addition to the depreciation amounts mentioned, in the reporting year, RUB 11 million (2015: RUB 0 million) of fixed asset depreciation was capitalized into stripping activity asset, recognized as a result of the fact that the Company incurred costs of overburden removal to improve access to those reserves that will be extracted in future periods. The stripping activity asset for the amount of RUB 93 million has been recognized as part of the coalmining assets and will be depreciated in proportion to the volume of recoverable reserves, access to which has been improved.

Additions to property, plant and equipment in the reporting year does not include any interest expenses (2015: such additionals included RUB 4 million capitalized interest costs). As at 31 December 2016 fixed assets with a carrying amount of RUB 3 886 million (2015: RUB 4 460 million) were pledged to secure bank loans. The respective amount of secured bank loans is disclosed in note 22.

(a) Impairment

As at the reporting date the amount of the Group’s consolidated net assets exceeded the market capitalization of the Company, which was an indication that the Group’s non-current assets may be impaired. For the purposes of impairment testing management had estimateded value in use of cash generating units.

Value in use was determined applicating after-tax income tax rate equiled to 15.59% (2015: 16.92%).

As a result of the testing, management concluded that non-current assets were not impaired as at the reporting date. Increase of discount rate by 3.0 percentage points will not affect to the impairment of fixed assets (2015: 1.8 percentage points). Strengthening of the RUB against the USD by 2.2% in comparison with the planned exchange rate (2015: by 2.2%), or annual reduction in the growth rate of export coal prices by more than 1.3% (2015: by more than 2.3%) would not lead to the impairment recognition.

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Cost / deemed cost								
Balance at 1 January 2015	5 773	917	3 857	7 616	75	527	36	18 801
Reclassification from the exploration and evaluation assets	-	415	-	-	-	-	-	415
Additions	28	-	-	526	8	358	1	921
Transfers	203	-	206	367	1	(777)	-	-
Disposals	(3)	-	(1)	(92)	(2)	(3)	(33)	(134)
Balance at 31 December 2015	**6 001**	**1 332**	**4 062**	**8 417**	**82**	**105**	**4**	**20 003**
Additions	23	93	13	502	10	1 173	2	1 816
Transfers	2	7	5	1 119	6	(1 139)	-	-
Disposals	(13)	-	(3)	(630)	(1)	-	-	(647)
Balance at 31 December 2016	**6 013**	**1 432**	**4 077**	**9 408**	**97**	**139**	**6**	**21 172**

In 2015 upon confirmation of technical feasibility and commercial viability of extracting mineral resources on licensed area "Bryanskyi-1" the accumulated exploration and evaluation costs in the amount of RUB 415 million were reclassified to the Mining assets in Property, plant and equipment.

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Depreciation and impairment losses								
Balance at 1 January 2015	(826)	(178)	(1 263)	(4 239)	(44)	-	(13)	(6 563)
Depreciation charge	(284)	(36)	(182)	(721)	(7)	-	-	(1 230)
Impairment reversal	-	-	-	-	-	-	13	13
Disposals	-	-	1	90	2	-	-	93
Balance at 31 December 2015	**(1 110)**	**(214)**	**(1 444)**	**(4 870)**	**(49)**	**-**	**-**	**(7 687)**
Depreciation charge	(277)	(31)	(182)	(992)	(9)	-	-	(1 491)
Disposals	3	-	2	616	1	-	-	622
Balance at 31 December 2016	**(1 384)**	**(245)**	**(1 624)**	**(5 246)**	**(57)**	**-**	**-**	**(8 556)**
Net book value								
At 1 January 2015	**4 947**	**739**	**2 594**	**3 377**	**31**	**527**	**23**	**12 238**
At 31 December 2015	**4 891**	**1 118**	**2 618**	**3 547**	**33**	**105**	**4**	**12 316**
At 31 December 2016	**4 629**	**1 187**	**2 453**	**4 162**	**40**	**139**	**6**	**12 616**

15 Deferred tax assets and liabilities

(a) Unrecognised deferred tax liabilities for investments in subsidiaries

As at 31 December 2016 the Group has not recognised a deferred tax liability in respect to the temporary differences relating to investments in subsidiaries, because management believes all such differences will not be realised in the foreseeable future. The amount of these differences is RUB 1 044 million (31 December 2015: RUB 1 470 million).

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities recognised for differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are attributable to the following:

Mln RUB	**Assets**		**Liabilities**		**Net balance**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment	43	14	(994)	(800)	(951)	(786)
Intangible assets	-	-	(14)	-	(14)	
Inventories	19	43	(67)	(65)	(48)	(22)
Trade and other receivables	219	174	(118)	-	101	174
Trade and other payables	130	46	(12)	-	118	46
Loans and borrowings	-	5	-	-	-	5
Provisions and employee benefits	21	74	-	-	21	74
Tax losses carry-forwards	209	240	-	-	209	240
Deferred tax assets / (liabilities)	**641**	**596**	**(1 205)**	**(865)**	**(564)**	**(269)**
Tax set-off	(316)	(174)	316	174	-	-
Net tax assets / (liabilities)	**325**	**422**	**(889)**	**(691)**	**(564)**	**(269)**

(c) Movement in deferred tax assets and liabilities

	1 January 2015	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**31 December 2015**	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**31 December 2016**
Property, plant and equipment	(705)	(81)	-	(786)	(165)	-	(951)
Intangible assets	-	-	-	-	(14)	-	(14)
Inventories	25	(47)	-	(22)	(26)	-	(48)
Trade and other receivables	197	(23)	-	174	(73)	-	101
Trade and other payables	173	(127)	-	46	72	-	118
Loans and borrowings	9	97	(101)	5	(5)	-	-
Provisions and employee benefits	58	15	1	74	(54)	1	21
Tax loss carry-forwards	15	225	-	240	(31)	-	209
	(228)	**59**	**(100)**	**(269)**	**(296)**	**1**	**(564)**

(d) Deferred tax assets for losses carried forward

The Group recognises deferred tax asset in respect of accumulated tax losses of its subsidiaries in total amount of RUB 209 million. This asset primarily relates to tax losses incurred by a Polish subsidiary. Management estimated this amount considering expected future taxable profits in Poland and Group’s intentions to maintain necessary level of intragroup coal sales’ margins to enable Poland subsidiary have sufficient taxable profits against which tax losses might be utilised.

In preparing the estimate management also considered relevant year of expiry and limits for utilization within one tax period set by Poland legislation. Out of total amount of accumulated tax losses a portion of tax loss related to each past year is treated separately: it expires in 5 years and of which maximum 50% can be utilized within one profitable year.

If these forecasted profits do not materialise or change adversely, the value of deferred tax assets may need to be revised in future periods. These tax losses expire in 2017-2021.

Deferred tax asset in the amount of RUB 107 million (2015: RUB 99 million) was not recognised in respect of other tax losses of prior years. Deferred tax asset has not been recognised in respect of this item because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

16 Inventories

Mln RUB	31 December 2016	31 December 2015
Coal in stock	673	1 128
Coal in transit	257	400
Raw materials and consumables	580	697
	1 510	**2 225**

17 Trade and other receivables

Mln RUB	31 December 2016	31 December 2015
Trade receivables	2 995	2 994
Compensation receivable from budget	464	167
VAT receivable	295	527
Other receivables	242	302
Income tax receivable	147	25
Receivables from personnel	8	7
Other financial assets	5	16
Allowance for doubtful debts	(731)	(979)
	3 425	**3 059**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 25.

18 Prepayments and deferred expenses

Mln RUB	31 December 2016	31 December 2015
Advances given for transportation services	645	167
Advances given for inventory and other services	64	102
	709	**269**

19 Cash and cash equivalents

Mln RUB	31 December 2016	31 December 2015
Petty cash	3	2
Bank accounts	1 822	171
Term deposits	2 012	3 217
	3 837	**3 390**

As at 31 December 2016 deposit rate for the Group was 7.88% - 9.50% for the deposits in RUB (31 December 2015: 10.80% - 11.15%) and 0.10% - 3.35% for the deposits in USD (31 December 2015: 0.42% - 3.35%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

20 Share capital

	31 December 2016	31 December 2015
Number of authorised shares	99 258 355	99 258 355
Par value, Russian roubles	0.2	0.2
Share capital, RUB million	**20**	**20**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(a) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the Russian Accounting Principles, which differs from the balance of retained earnings reported in these consolidated financial statements.

Approved in March 2015 revised Dividend policy provides the calculation of dividends with considering the profit for the period according to the IFRS Consolidated Financial Statements.

In the reporting year no dividends were paid. In 2015 the dividends for the first quarter were declared and paid in the total amount of RUB 248 million that equals to RUB 2.5 per one ordinary share.

21 Earnings per share

The basic and diluted earnings per share in 2016 amounting to RUB 6.02 (2015: RUB 0.06) was calculated on the profit for the year attributable to shareholders of RUB 598 million (2015: RUB 6 million), and a weighted average number of ordinary shares outstanding of 99 258 355 in 2015 (2015: 99 258 355). The Company has neither preference shares nor dilutive potential ordinary shares.

22 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 25.

Mln RUB	**31 December 2016**	**31 December 2015**
Non-current liabilities		
Secured bank loans	1 495	5 620
Unsecured bank loans	4 320	1 624
Loans from other companies	131	135
	5 946	**7 379**
Current liabilities		
Unsecured bank loans	2 327	1 145
Secured bank loans	1 004	465
Loans from other companies	18	17
Interest accrued	29	26
	3 378	**1 653**

Bank loans are secured by the property, plant and equipment with a carrying amount of RUB 3 886 million (31 December 2015: RUB 4 460 million). Refer to note 14.

(a) Terms and debt repayment schedule:

				2016		2015	
Mln RUB	**Currency**	**Effective interest rate**	**Year of maturity**	**Carrying amount**	**Face value**	**Carrying amount**	**Face value**
Secured bank loans	USD	4.30%	2017-2018	1 395	1 395	3 134	3 134
Secured bank loans	RUB	12.75%-14.30%	2017-2019	1 124	1 124	-	-
Unsecured bank loans	USD	4.35%-5.30%	2017-2019	5 132	5 132	-	-
Unsecured bank loans	RUB	12.91%	2018-2019	672	672	-	-
Unsecured bank loans	Euro	2.32%	2017	493	493	-	-
Unsecured bank loans	RUB	2.00%	2017	265	265	-	-
Unsecured bank loans	RUB	11.20%-12.40%	2017	94	94	1 503	1 503
Loans from the companies	RUB	8.00%-13.10%	2017 - 2037	149	317	152	333
Secured bank loans	USD	3.80%-4.25%	2016-2019	-	-	2 937	2 937
Unsecured bank loans	RUB	8.70% - 9.00%	2016	-	-	801	801
Unsecured bank loans	PLN	Wibor 1M+1.20%	2016	-	-	310	310
Secured bank loans	RUB	15.00%	2016	-	-	17	17
Unsecured bank loans	RUB	2.00%	2016	-	-	54	54
Unsecured bank loans	RUB	14.30%	2017-2018	-	-	124	124
				9 324	**9 492**	**9 032**	**9 213**

The borrowings presented above include interest payable.

23 Provisions and other liabilities

The Group's provisions and other liabilities are represented by the following:

Provisions and other liabilities

Mln RUB	31 December 2016	31 December 2015
Site restoration liabilities	323	304
Deferred income/revenue	184	193
Concession agreement liabilities	87	-
Retirement benefit liability	66	52
Non-current provisions and liabilities	**660**	**549**
Net assets attributable to minority participants in LLC entities	161	158
Retirement benefit liability	15	14
Current provisions and liabilities	**176**	**172**

As minority participants in limited liability companies of the Group have an unilateral right to withdraw their share of net assets from the entity, their interests in the net assets of these entities have been recognised as a liability.

(a) Site restoration liabilities

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

During 2016 RUB 7 million (2015: RUB 12 million) was charged to cost of sales in the course of coal extraction. Moreover, as a result of changing in accounting estimates RUB 17 million was credited to the cost of sales (2015: RUB 29 million was charged). The Group uses a nominal discount rate based on an average yield on Russian government bonds with similar maturities. As at 31 December 2016 the average yield amounted to 8.49% per year (31 December 2015: 9.53 % per year).

Considering the nature of this liability, the main uncertainty arises in respect of the expenses to be incurred by the Group in future. Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as those operated by the Group. Generally the standard of restoration is determined based on discussions with federal and local government officials at the time when restoration is about to commence.

In making the assumptions for the calculation of the expected costs, management has consulted with its in-house engineers who have considered statutory requirements in respect of similar sites that require similar site restoration activities.

(b) Deferred income/revenue

As at the reporting date the Group has obligations under long-term interest-free loans maturing in 2036-2037 that were received from its customers. The loan agreements require the provision of a minimal level of railroad transportation services to these customers using the Group's own railway network until the repayment of the loans.

A relevant liability was recognised by the Group at fair value within loans and borrowings. The effect of discounting at the moment of recognition is represented as deferred income that is to be amortised into revenue over the term of the loans.

(c) Concession agreement liabilities

In the reporting year the Group became a party to two concession agreements with municipalities. Under these agreements, the Group, on the one hand, received the right to charge consumers for utility services rendered with the use of the assets transferred to the Group up to 2025 and 2032, while on the other hand — took the responsibility to carry out reconstruction of the transferred infrastructure in accordance with established schedules.

The fair value of liabilities under the concession agreements at the recognition date has been determined as the present value of future costs for the reconstruction of the infrastructure, discounted at a rate equivalent to the average rate of return on Russian government bonds with comparable maturities. At the date of recognition of liabilities, the average yields on these instruments amounted to 7.65%-8.40% per annum.

24 Trade and other payables

Mln RUB	31 December 2016	31 December 2015
Trade payables	839	1 138
Payables to personnel	290	266
Taxes (other than income tax) payables	277	226
Payables for property, plant and equipment	208	77
Payables for transportation services and other payables	176	201
Advances received	48	233
Income tax payable	18	48
	1 856	**2 189**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

25 Financial instruments and risk management

(a) Accounting classifications and fair values

The Group classifies financial instruments into financial instruments measured at amortised cost and financial instruments measured at fair value. As at the 31 December 2016 and 31 December 2015 the Group had no financial instruments measured at fair value.

Excluding the items shown below the management of the Group believes that at the 31 December 2016 the carrying amounts of the Group`s financial assets and liabilities are a reasonable approximation of their fair values.

Mln RUB	Carrying amount 2016	Fair value Level 3 2016	Carrying amount 2015	Fair value Level 3 2015
Loans and borrowings measured at amortised cost	9 324	9 386	9 032	8 767

The fair value was defined as the amount of discounted cash flows on liabilities. The interest rates used to discount estimated cash flow are based on the incremental borrowing interest rate at the reporting date:

	2016	**2015**
Loans and borrowings measured at amortised cost	4.4% - 4.81% (USD) 2.63% (EURO) 11.33% - 11.53% (RUB)	5.70% (USD) 2.91% (PLN) 13.22%-13.50% (RUB)

(b) Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group does not have formalised risk management policies, however procedures are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management procedures are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The actual execution of financial instruments risk analysis and management is the responsibility of the General Director of the Group, who reviews on a regular basis risk exposure and risk profiles and recommends management actions aimed at mitigating risks beyond levels of tolerance.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, deposits with banks and financial institutions, loans given and outstanding trade and other receivables. Credit risk is managed on a group basis.

The Group's exposure to credit risk in respect of trade and other receivables at the end of the reporting period is primarily represented by receivables from wholesale customers and other counterparties in the Russian Federation and the Republic of Poland.

As at 31 December 2016 the individual balance of one of the polish consumer before impairment exceeded 10% of total trade receivables. As at 31 December 2015 each of individual balances of the trade receivables from two polish customers before impairment exceeded 10% of total trade receivable balance. The management reviewed and analysed these balances for impairment. The result is presented further, in the section Impairment losses.

Impairment losses

The Group does not require collateral in respect of its financial assets. Credit evaluations are performed on all customers, other than related parties, before proposing to the client standard payment and delivery conditions accepted by the Group. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The client base in the domestic market is mainly represented by municipal enterprises and their paying ability depends directly on the status of public financing. The Group has a significant amount of overdue receivables from those customers at the reporting date. However, such terms are considered by management to be common for the customers in this segment.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is made for individually significant exposures where objective evidence of impairment loss exists.

The ageing of trade and other receivables together with allowances as at the reporting dates was:

Mln RUB	**Trade and other receivables 2016**	**Impairment 2016**	**Trade and other receivables 2015**	**Impairment 2015**
Not past due	1 858	-	1 530	-
Past due 0-30 days	408	-	298	-
Past due 31-60 days	183	-	79	-
Past due 61-90 days	109	-	27	(3)
Past due 91-180 days	90	(2)	58	(9)
Past due more than 180 days	1 053	(729)	1 471	(967)
	3 701	**(731)**	**3 463**	**(979)**

As at 31 December 2016 the trade receivables of the Group before allowance included balances of two Polish counterparties in the total amount of RUB 690 million (31 December 2015: RUB 897 million). Management of the Group assessed the recoverability of those receivables in light of all known facts and circumstances. As a result, the impairment of those receivables at the reporting date amounted to RUB 589 million (31 December 2015: RUB 770 million). The remainder of the impairment losses at 31 December 2016 relates to several customers in Russia and Poland that had financial difficulties.

The Group believes that unimpaired amounts that are past due are still collectable in full based on historical payment behaviour and extensive analysis of customers' credit risk.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Mln RUB	**2016**	**2015**
Balance, as at beginning of the year	(979)	(480)
Recognised in the statement of profit or loss and other comprehensive income	161	(541)
Amounts written off against bad debt provision	87	42
Balance, as at end of the year	**(731)**	**(979)**

Other financial instruments as at 31 December 2016 and 31 December 2015 are not past due.

(ii) The credit risk level

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Mln RUB	31 December 2016	31 December 2015
Cash and cash equivalents	3 837	3 390
Trade receivables	2 264	2 094
Other receivables	706	390
Other financial assets	6	17
	6 813	**5 891**

As at 31 December 2016, 87% (31 December 2015: 67%) of cash and cash equivalents were held in one of the largest Russian banks. About 11% were allocated between two other major Russian banks. The individual balance in each of these banks did not exceed 10% of total amount of cash and cash equivalents at the reporting date. The remaining funds were shared between several Russian and foreign banks with a light individual balance in each of the banks. The credit ratings of these banks are presented below:

	31 December 2016	31 December 2015
AAA, based on national scale of Fitch Ratings	3 320	2 269
A++, based on the information from Russian rating agency Expert RA	304	601
A+, based on the information from Russian rating agency Expert RA	133	439
Ba2, based on international scale of Fitch Ratings	38	55
A, based on international scale of Fitch Ratings	33	4
BB+, based on international scale of Standard&Poor's	6	4
BBB-, based on international scale of Fitch Ratings	-	16
Petty cash	3	2
	3 837	**3 390**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations when due. The Group's approach to managing liquidity is to ensure sufficient balance of cash and cash equivalents and to ensure financing with sufficient credit facilities.

In the reporting year and beyond, the Group anticipates funding for further capital investments from cash generated from operations and additional bank loans. The management believes that based on the expected levels of operating profit and cash flows the Group will be able to meet its short-term liabilities as they fall due.

As at 31 December 2016, the Group has a number of open credit lines from several major Russian and foreign banks. In accordance with the agreements the Group may borrow from these banks in roubles at 11.69% p.a. (2015: 13.05%% p.a.) and in foreign currency at 5.38% p.a. (2015: 2.85% p.a.). The unused amount of these facilities was RUB 5 491 million as at the reporting date (31 December 2015: RUB 12 568 million).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As at 31 December 2016

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2 519	154	1 036	1 436	125	-	-	-	2 751
Unsecured bank loans	6 656	533	2 138	2 025	2 661	-	-	-	7 357
Loans from other companies	149	10	9	17	16	16	16	235	319
Trade and other payables	1 513	1 513	-	-	-	-	-	-	1 513
Net assets attributable to minority participants in LLC entities	161	161	-	-	-	-	-	-	161
	10 998	**2 371**	**3 183**	**3 478**	**2 802**	**16**	**16**	**235**	**12 101**

As at 31 December 2015

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	6 088	144	574	4 499	1 167	125	-	-	6 509
Unsecured bank loans	2 792	479	913	1 640	106	-	-	-	3 138
Loans from other companies	152	9	9	17	16	16	16	250	333
Trade and other payables	1 682	1 682	-	-	-	-	-	-	1 682
Net assets attributable to minority participants in LLC entities	158	158	-	-	-	-	-	-	158
	10 872	**2 472**	**1 496**	**6 156**	**1 289**	**141**	**16**	**250**	**11 820**

Amounts of trade and other payables exclude advances received and other taxes payable.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group entities.

The policy of the Group in relation to the structure of its financial liabilities is based on expected revenue cash flows denominated in the relevant currency. Therefore, the Company uses economic hedging of the currency risk arising from the fluctuations of currency exchange rates.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Mln RUB	USD-denominated	EUR-denominated	PLN-denominated	USD-denominated	EUR-denominated	PLN-denominated
	31 December 2016	31 December 2016	31 December 2016	31 December 2015	31 December 2015	31 December 2015
Trade and other receivables	564	-	650	66	4	1 207
Cash and cash equivalents	3 340	-	33	2 338	-	4
Trade and other payables	(101)	-	(123)	(42)	(6)	(190)
Loans and borrowings	(6 527)	(493)	-	(6 071)	-	(310)
Net exposure	**(2 724)**	**(493)**	**560**	**(3 709)**	**(2)**	**711**

The following exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD 1	67.0349	60.9651	60.6569	72.8827
EUR 1	74.2310	67.7884	63.8111	79.6972
PLN 1	17.0258	16.1830	14.4445	18.7881

Sensitivity analysis

The analysis assumes that all other variables, in particular interest rates, remain constant.

Based on the Group's exposure to the risks as at the reporting date, a possible impact to the profit before income tax could be as follows:

Assumption	**Impact to the profit or loss before income tax: increase/(decline), RUB million**	
	2016	2015
Strengthening/(weakening) of the RUB against USD for 10%	272 / (272)	371 / (371)
Strengthening/(weakening) of the RUB against PLN for 10%	56 / (56)	71 / (71)
Strengthening/(weakening) of the RUB against EURO for 10%	49 / (49)	-

(ii) ***Interest rate risk***

Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt) or their future cash flows (variable rate debt).

The Group's management generally prefers the use of fixed rate instruments. However, at the time of raising new loans or borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

Mln RUB	**31 December 2016**	**31 December 2015**
Fixed rate interest-bearing instruments:		
Deposits	2 012	3 217
Loans and borrowings	(9 324)	(8 722)
	(7 312)	**(5 505)**
Variable rate interest-bearing instruments:		
Loans and borrowings	-	(310)
	(7 312)	**(5 815)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss for the period.

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2016 the Group had no variable rate interest-bearing instruments. At 31 December 2015 the analysis was made for variable rate financial liabilities while all other variables, in particular foreign currency rates, remain constant. A reasonably possible rise (reduction) of the Wibor 1m interest rate by 100 basis points at the reporting date would have decreased (increased) profit or loss before taxes by less than RUB 1 million.

(e) Capital management

The Group's main objective when managing capital is to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders and benefits to other interested parties, as well as to maintain an optimal capital structure.

Since 2010 the Board of Directors adopted a policy, under which the Company shall pay dividends annually in the amount of not less than 25% of the Company's net profit for the preceding year, as determined under Russian statutory accounting principles.

In March 2015 the Board of Directors approved a revised Dividend Policy. The Policy provides the dividend payments in the amount not less than 25% of profit for the year according to the IFRS Consolidated Financial Statements.

A part of the Group bank loans has a number of covenants, mainly associated with compliance of financial ratios, such as net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA"), with the target values stated in the loan agreements. The Group was in compliance with all such covenants during 2015-2016.

(f) Offsetting of financial assets and financial liabilities

As at 31 December 2016 and 31 December 2015 the Group has no financial assets and financial liabilities that meet the requirements for offsetting financial assets and financial liabilities.

26 Operating leases

The Group leases a number of property, plant and equipment facilities under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. During the year RUB 166 million (2015: RUB 154 million) was recognised as an expense in the statement of profit or loss and other comprehensive income.

Additionally, the Group leases land plots which are occupied by the Group's production and sale facilities from various municipal bodies. The land leases run for different periods: from one year and are prolonged on an annual basis, up to 50 years. As at the year end the Group leased approximately 428 hectares of land (2015: 446 hectares) and made payments during the year of RUB 64 million (2015: RUB 34 million). Payments of land rent in subsequent years will depend on the size of land plots under lease and changes in the rent rate per hectare.

27 Commitments

(a) Capital commitments

As at 31 December 2016 the Group has entered into a number of contracts to purchase plant and equipment for RUB 934 million (2015: RUB 1 072 million). The obligations are mainly related with the acquisition of machinery, equipment and vehicles in the program of the planned renewal of the production assets.

28 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion since 2014).

The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies,tax residency rules,etc.These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Litigation contingencies

The Group is a part of several outstanding legal proceedings at the reporting date in which it acts as defendant, and decisions on which may be taken only in subsequent reporting periods. The most significant amount for unsettled disputes is related to the services provided by the Group earlier for the transportation of coal and amounts to RUB 113 million. The Company's management estimates the probability of winning this dispute as high.

29 Related party transactions

(a) Control relationships

As at 31 December 2016 and 31 December 2015 the Company was controlled by Haver Holding Limited, which is the immediate and ultimate parent company and owns 50.0727% of the Company’s share capital. Mr Igor Yurievich Prokudin is the Company’s ultimate controlling party as at 31 December 2016 and 31 December 2015.

(i) Key management remuneration

Key management received the following remuneration during the year (refer to note 11), which is included in personnel costs:

Mln RUB	2016	2015
Salaries and bonuses	221	219
Contributions to State pension fund	43	39
Total management remuneration	**264**	**258**

(b) Transactions with other related parties

The Group’s other related party transactions which are represented by transactions with its equity accounted investees are disclosed below:

(i) Expenses

Mln RUB	Transaction value 2016	Transaction value 2015	Outstanding balance 2016	Outstanding balance 2015
Services received	20	35	-	3
	20	**35**	**-**	**3**

All outstanding balances with related parties are non-secured and to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Revenue

Mln RUB	Transaction value 2016	Transaction value 2015	Outstanding balance 2016	Outstanding balance 2015
Sale of coal	23	24	3	1
Other revenue	2	2	-	-
	25	**26**	**3**	**1**

All outstanding balances with related parties are non-secured and to be settled in cash within six months of the reporting date.

30 Events subsequent to the reporting date

The Company has evaluated events subsequent to the period end through the date of consolidated Financial Statements authorization for issue. No events that would require disclosures were noted.

31 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. Property, plant and equipment was revalued to determine the deemed cost as a part of transition to IFRSs as at 1 January 2006.

32 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in the Group`s equity.

(v) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following types of financial assets: loans and trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, term deposits and highly liquid investments that are subject to insignificant risk of changes in their fair value and that are convertible to a known amount of cash on demand.

Other

Other non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities of the Group are the following: loans and borrowings, bank overdrafts, trade and other payables.

(iii) Hedge accounting

The Group applies cash flow hedges to manage fluctuations of cash flows as result of the variability of currency exchange rates on highly probable forecast transactions. For financial instruments measured at amortized cost and assigned as hedging instruments the Group applies the hedge accounting. The effective portion of hedge is recognised in other comprehensive income. Any ineffective portion is recognised straight in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument is immediately reclassified from equity to profit and loss against the hedged item.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs are capitalised if an asset takes a substantial period of time (not less than six months) to get ready for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Mine development costs

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on development of mineral resources is capitalised and classified within the "Construction in progress" category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to works on mine development which are inseparable from the mine's landscape, as well as costs of development stripping. Other development costs are recognised in profit or loss as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to "Mining assets and mining structures" category, which is classified within property, plant and equipment.

(iv) ***Stripping costs***

Overburden and other mine waste materials are removed during the initial development of a mine site in order to access the mineral resource. This activity is referred to as development stripping for open-pit mines. The directly attributable costs of development stripping (inclusive of an allocation of relevant overhead expenditure) are capitalised as mine development costs within property, plant and equipment.

The costs of production stripping incurred in the current period are to be included in the cost of the inventory produced in the period when such costs were incurred; waste removal costs incurred in order to improve access to the ore that will be mined in future periods are capitalised and recognised as a non-current stripping activity asset.

The Company recognises a stripping activity asset if, and only if, all of the following are met:

- the entity can identify the component of the ore body for which access has been improved;
- the costs relating to the stripping activity associated with that component can be measured reliably;
- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity.

After the initial recognition, a stripping activity asset shall be recognised at its cost less amortisation and impairment losses in the group of property, plant and equipment "Mining assets and mining structures". The asset is amortised using a unit of production method within each component of the ore body.

(v) ***Mining assets and mining structures***

This category of property, plant and equipment comprises the following categories of capitalized costs, related to mines put into production use:

- capitalised mine development expenditure, including stripping costs incurred during the construction phase;
- stripping activity asset;
- capitalised site restoration obligations;
- cost of production mining licences.

(vi) ***Depreciation***

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves under the Russian classification. Depletion of

mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in the profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

- Buildings and other production structures 9 - 46 years;
- Machinery, equipment and vehicles 5 - 35 years;
- Fixtures and fittings 3 - 5 years;
- Mining assets and mining structures Pro rata to extraction volumes in relevant mines.

Based on current extraction volumes, average expected remaining useful life of mining assets and mining structures is approximately 30 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Exploration and evaluation expenditure

Exploration and evaluation assets include costs of acquisition of prospecting licenses, topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as "Exploration and evaluation assets". When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which is evidenced by a formalized development plan, the exploration and evaluation assets are reclassified within property, plant and equipment to "Construction in progress", where they form part of mine development costs.

(f) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) Intangible Assets under Concession Agreement

The Group recognises an intangible asset arising from concluding a concession agreement on the provision of services, in the case of having a right to charge for usage of concession infrastructure, obtained in exchange for commitments on reconstruction of the infrastructure facility. An intangible asset represents remuneration for the provision of construction, upgrading or maintenance under a concession agreement on the provision of services, measured at fair value at initial recognition, taking into account the fair value of the services provided. Payments under a

concession agreement represent an additional component of the cost of an intangible asset recognised in accordance with IFRS 38.
After initial recognitionan intangible asset is carried at a cost including capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

The estimated useful life of an intangible asset under a concession agreement on the provision of services, is the period during which the Group may charge for the use of infrastructure and until the end of the concession period.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(v) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at a specific asset level. All individually significant loans and receivables are assessed for specific impairment.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(j) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Long-term benefits

The Group is subject to certain defined benefit plans. Defined benefit plans are post-employment benefits plans under which the Group has a legal or constructive obligation to pay amounts in respect of those benefits, and thus makes direct payments to its employees. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method.

In accordance with this method, the Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits: mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc., as well as financial assumptions: discount rate, future salary and benefit levels, etc.

The Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. Any net actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognised as other comprehensive income.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed in course of land plot preparation, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred. Increases in provision due to subsequent disturbance of land plots in course of coal extraction are charged to cost of production of inventories.

(l) Net assets attributable to minority participants in LLC entities

If, according to charter documents of a limited liability company, a participant may unilaterally withdraw from such company, the company will be obliged to pay the withdrawing participant's share of net assets of the company for the year of withdrawal, in cash or, subject to consent of the participants, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of withdrawal.

Accordingly, the share capital and retained earnings of limited liability companies forming part of the Group which are attributable to minority participants and where the participants may unilaterally withdraw, are shown as net assets attributable to minority participants, and are presented as liabilities of the Group.

(m) Revenue

(i) Sale of coal

Revenue from the sale of coal in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably.

The transfer of risks and rewards varies depending on the individual terms of the contract of sale and usually occurs when the coal is received at the customer's warehouse or is collected from the Group's warehouse in case of retail sales. However, for some international shipments the transfer of risks and rewards occurs upon passing the products to the relevant carrier or at the frontier. Usually the Group bears responsibility to deliver coal at certain point and associated expenses are included in cost of sales.

Certain coal sales are provisionally priced so that price is not settled until a predetermined future date based on the market price at that time. Revenue from these transactions is initially recognised at the current market price. Provisionally priced coal sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment is recorded in revenue.

(ii) Revenue from rendering services

Revenue from rendering services comprises sales of electrical power, heat energy and hot water and sales of storage and transportation services. Revenue from transportation services rendered is recognised in profit or loss in proportion to the stage of completion of a respective voyage at the reporting date. Revenue from sales of power, heat energy and hot water is recognized on the delivery of electricity, heat and water and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(iii) Compensation from government

Compensation from government relates to retail sales of coal to the general public at fixed prices regulated by the government. The Group receives reimbursement from the state budget for the difference between the regulated price and actual cost of goods sold. Compensation from government is accrued when respective sales are made to the end customer.

For services provided at regulated tariffs compensation covers the losses resulting from the application of regulated tariffs for general public. Such compensations are recognised in profit or loss as revenue on a systematic basis in the same periods in which the expenses are recognised.

(n) Finance income and costs

Finance income and costs of the Group comprise:

- interest income, including effect of discounting on financial assets and liabilities;
- interest expense, including amortisation of discount on financial assets and liabilities;
- net amount of gain or loss from revaluation of financial assets and liabilities denominated in foreign currency;
- impairment loss recognised in regard of financial assets.

Interest income and expense are recognised using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, if any.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Company's General Director to make decisions about resources to be allocated to the segment and assess its performance.

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these consolidated financial statements.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- Disclosure Initiative (Amendments to IAS 7).
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12).
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

The following standards and interpretations may have potential impact on the Group`s operations. The Group plans to adopt these pronouncements when they become effective:

New or amended standard	**Summary of the requirements**	**Possible impact on consolidated financial statements**
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2015, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
IFRS 16 Lease	IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.