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

Consolidated Financial Statements
for the 2017,
and Auditors’ Report of Independent auditors

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Independent Auditors' Report

To the Shareholders and Board of Directors of 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 2017, 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 2017, 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

Recoverability of trade and other receivables

Please refer to the Note 25 in the 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 Polish counterparties in the total gross amount of RUB 1,004 million. These receivables are past due by more than 180 days. The Group recognized an impairment in the total amount of RUB 846 million in relation to these receivables based on the assessment of their recoverability. Since the assessment of recoverability is subjective and requires use of professional judgement, we refer this aspect to the key audit matters.	Our audit procedures included testing of assumptions used by Group management 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 bad debts this segment usually experiences in similar circumstances. We also considered the adequacy of the Group's disclosures on the matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the 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 will 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 when it becomes available 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 scepticism 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

2 April 2018

Mln RUB	Note	31 December 2017	31 December 2016
ASSETS			
Property, plant and equipment	14	13 089	12 616
Exploration and evaluation assets		103	80
Other non-current assets		183	122
Deferred tax assets	15	366	325
Non-current assets		**13 741**	**13 143**
Inventories	16	2 592	1 510
Trade and other receivables	17	3 535	3 425
Hedging instruments	25(d)(i)	111	-
Prepayments and deferred expenses	18	845	709
Cash and cash equivalents	19	5 430	3 837
Current assets		**12 513**	**9 481**
Total assets		**26 254**	**22 624**

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 56.

Mln RUB	Note	31 December 2017	31 December 2016
Equity			
Share capital	20	20	20
Additional paid-in capital		2 829	2 829
Retained earnings		8 366	6 869
Total equity attributable to equity holders of the Company		**11 215**	**9 718**
Non-controlling interest		1	1
Total equity		**11 216**	**9 719**
Liabilities			
Loans and borrowings	22	7 211	5 946
Provisions and other liabilities	23	584	660
Deferred tax liabilities	15	1 003	889
Non-current liabilities		**8 798**	**7 495**
Loans and borrowings	22	2 507	3 378
Trade and other payables	24	3 447	1 856
Provisions and other liabilities	23	286	176
Current liabilities		**6 240**	**5 410**
Total liabilities		**15 038**	**12 905**
Total equity and liabilities		**26 254**	**22 624**

These consolidated financial statements were approved by management on 2 April 2018 and were signed on its behalf by:

General Director

Eduard V. Alexeenko

Deputy General Director
for Economics and Finance
Andrey A. Berdnikov

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 56.

Mln RUB	Note	2017	2016
Revenue	6	**38 662**	**26 863**
Cost of sales	7	(32 570)	(23 220)
Gross profit		**6 092**	**3 643**
Distribution expenses	8	(1 507)	(1 294)
Administrative expenses	9	(1 275)	(1 077)
Other (expenses)/income, net	10	(64)	30
Profit from operating activities		**3 246**	**1 302**
Finance income	12	221	288
Finance costs	12	(838)	(756)
Profit before income tax		**2 629**	**834**
Income tax expense		(525)	(187)
Profit for the year	13	**2 104**	**647**
Profit attributable to:			
Equity holders of the Company		2 093	598
Minority participants in LLC subsidiaries		11	25
Non-controlling interests		-	24
		2 104	**647**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Defined benefit plan actuarial loss, net of income tax		-	(5)
Total comprehensive income for the year		**2 104**	**642**
Total comprehensive income attributable to:			
Equity holders of the Company		2 093	593
Minority participants in LLC subsidiaries		11	25
Non-controlling interests		-	24
		2 104	**642**
Earnings per share			
Basic and diluted earnings per share (RUB)	21	21.09	6.02

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 56.

Mln RUB	**Attributable to shareholders of the Company**					
	Share capital	**Additional paid-in capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	**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**
Profit for the year	-	-	2 093	2 093	-	2 093
Total comprehensive income for the year	**-**	**-**	**2 093**	**2 093**	**-**	**2 093**
Dividends paid	-	-	(596)	(596)	-	(596)
Balance at 31 December 2017	**20**	**2 829**	**8 366**	**11 215**	**1**	**11 216**

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 56.

Mln RUB	2017	2016
OPERATING ACTIVITIES		
Profit for the year	2 104	647
Adjustments for:		
Depreciation and amortisation	1 859	1 491
Gain on disposal of property, plant and equipment	(25)	(165)
Net finance costs	617	468
Income tax expense	525	187
Cash flows from operating activities before changes in working capital and provisions	**5 080**	**2 628**
Changes in:		
- Inventories	(1 082)	715
- trade and other receivables	(568)	(606)
- prepayments for current assets	(136)	(440)
- trade and other payables	1 281	(276)
- provision for site restoration and employee benefits	7	(5)
Cash flows from operating activities before income tax and interest paid	**4 582**	**2 016**
Income taxes paid	(250)	(46)
Interest paid	(607)	(685)
Interest received on cash and cash equivalents	140	99
Net cash flows from operating activities	**3 865**	**1 384**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	68	177
Loans issued	(6)	(14)
Proceeds from loans issued	1	30
Acquisition of promissory notes	-	(20)
Proceeds from promissory notes	4	15
Acquisition of property, plant, equipment, intangible assets and exploration and evaluation assets	(2 310)	(1 741)
Cash flows used in investing activities	**(2 243)**	**(1 553)**
FINANCING ACTIVITIES		
Proceeds from borrowings	15 365	18 330
Repayment of borrowings	(14 693)	(16 995)
Acquisition of minority non-controlling interests	-	(16)
Income paid to minority participant in LLC entities	(12)	(22)
Dividends paid	(596)	-
Cash flows from financing activities	**64**	**1 297**
Net increase) in cash and cash equivalents	**1 682**	**1 128**
Cash and cash equivalents at the beginning of year	3 837	3 390
Effect of exchange rate fluctuations on cash and cash equivalents	(93)	(681)
Cash and cash equivalents at the end of year	**5 430**	**3 837**

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 56.

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:

			Ownership/voting share	
	Country of incorporation	**Principal activity**	**31 December 20167**	**31 December 2016**
LLC TEK Meret	Russia	Railroad transportation services	100%	100%
LLC Kuzbasstoplivosbyt	Russia	Sale of coal	100%	100%
JSC Kaskad Energo	Russia	Electricity and heat power 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.

The company is certified to three international standards: ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems (with a focus on risk management), OHSAS 18001:2008 Occupational Health and Safety Management Systems. In the reporting year, the company moved to new versions of quality and environmental management standards, which focus on risk-oriented thinking and a risk management system, including financial risks. In 2017, the audit of new versions of the standards was successfully completed.

(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 2017, 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 2017 the revenue from two customers represents more than 10% of the Group's total revenue, amounting to RUB 13 200 million (2016: RUB 11 178 million) and RUB 4 716 million (2016: RUB 3 159 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	**2017**	**2016**	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Russia	7 085	6 478	1 058	1 018	30	48
European Union	12 173	7 167	749	920	91	-
Asia	19 404	13 218	624	326	26	-
Total	**38 662**	**26 863**	**2 431**	**2 264**	**147**	**48**

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.

2017 **Mln RUB**	**Domestic sales of produced coal**	**Export sales of produced coal**	**Resale of purchased coal**	**Other operations**	**Total**
Revenue	4 536	30 416	2 440	1 270	38 662
Cost of sales	(3 967)	(25 283)	(2 369)	(951)	(32 570)
Gross profit and segment result	**569**	**5 133**	**71**	**319**	**6 092**
Unallocated expenses					
Other operating expenses					(2 846)
Net finance costs					(617)
Profit before income tax					**2 629**
Trade receivables	696	1 322	247	166	2 431
Advances received	(23)	(113)	(11)	-	(147)

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**

	Domestic sales of produced coal	Export sales of produced coal	Resale of purchased coal	Other operations	Total
Trade receivables	685	1 235	240	104	2 264
Advances received	(35)	-	(12)	(1)	(48)

6 Revenue

Mln RUB	2017	2016
Sales of coal	36 712	25 491
Compensation from the government	798	695
Sales of electrical and heat power and hot water	554	347
Provision of transportation and storage services	462	200
Other revenue	136	130
	38 662	**26 863**

The Group recognized revenue from provision of transportation services in the amount of RUB 181 million (2016: nil) previously accounted as deferred income due to the carrying out of obligations under the relevant agreements of transportation and infrastructure construction (see note 23).

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	2017	2016
Railway tariff and transportation services	18 450	13 181
Extraction, processing and coal sorting services	3 358	683
Fuel	2 122	1 845
Personnel costs	2 069	1 750
Depreciation and amortisation	1 754	1 382
Coal purchased	2 118	1 062
Repair and maintenance	1 121	789
Spare parts	803	760
Other services	792	587
Mining and environmental taxes	460	333
Other materials	331	243
Other costs	40	17
Change in provision for site restoration	22	(10)
Change in coal in stock and transit	(870)	598
	32 570	**23 220**

8 Distribution expenses

Mln RUB	2017	2016
Services	710	545
Personnel costs	585	545
Materials	89	80
Depreciation and amortisation	82	87
Other distribution expenses	41	37
	1 507	**1 294**

9 Administrative expenses

Mln RUB	2017	2016
Personnel costs	833	690
Services	186	174
Taxes other than income tax	130	131
Materials	29	25
Depreciation and amortisation	23	22
Other administrative expenses	74	35
	1 275	**1 077**

10 Other incomes and expenses

Mln RUB	2017	2016
Recalculation of property tax for prior years	65	-
Gain on disposal of property, plant and equipment	25	165
Write-off of an overcharged obligation / (expenses) to recover damages	15	(58)
(Expenses)/Income from fines and penalties	(58)	14
Charity and welfare	(111)	(91)
	(64)	**30**

11 Personnel costs

Mln RUB	2017	2016
Wages, salaries and other payments to personnel	2 732	2 321
Social charges	755	656
Expenses related to defined benefit plans	-	8
	3 487	**2 985**

12 Finance income and finance cost

Mln RUB	**2017**	**2016**
Interest income on cash and cash equivalents	140	99
Interest income on loans issued and receivables	3	4
Forex exchange gain	78	185
Finance income	221	288
Interest expense	(592)	(683)
Unwinding of discount on provision for site restoration and on employee benefits	(46)	(38)
Unwinding of discount on long-term interest-free loans received	(14)	(13)
Allowance for doubtful debts	(186)	(22)
Finance costs	(838)	(756)
	(617)	**(468)**

In addition to interest expenses included to this note RUB 7 million (2016: nil) interest expenses were capitalized to construction in progress in the reporting year using an average capitalisation rate of 6.3 %.

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% (2016: 20%). The income tax rate for the Polish subsidiary is 19% (2016: 19%).

Mln RUB	**2017**	**2016**
Current tax expense		
Current year	(531)	(71)
Adjustment for prior years	79	180
	(452)	109
Deferred tax expense		
Origination and reversal of temporary differences	(73)	(296)
	(525)	**(187)**

Reconciliation of effective tax rate:

	2017		**2016**	
	Mln RUB	**%**	**Mln RUB**	**%**
Profit before income tax	2 629	100	834	100
Income tax at applicable tax rate	(526)	(20)	(167)	(20)
Effect of income tax rates in foreign jurisdictions	5	-	6	1
Effect of tax losses for which no deferred tax asset was recognized	-	-	(31)	(4)
Non-deductible expenses effect	(83)	(3)	(175)	(21)
Adjustment for prior years	79	3	180	22
	(525)	**(20)**	**(187)**	**(22)**

In 2017, due to disaggregation of certain fixed assets for the purposes of tax accounting and a corresponding changes in their useful life, the Company recalculculated taxable base for 2013-2016. As a result, the Company filed updated tax returns for the specified periods on income tax, which resulted in the occurrence of a taxable temporary difference and an adjustment of income tax for the respective periods in the amount of RUB 58 million.

In 2016, 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

	2017			2016		
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)**

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	2017	2016
Cost of sales	1 737	1 373
Distribution expenses	81	85
Administrative expenses	23	22
	1 841	**1 480**

In addition to the depreciation amounts mentioned, in the reporting year, RUB 7 million (2016: RUB 11 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 carrying amount of the recognized stripping asset at the reporting date amounted to RUB 195 million (31 December 2016: RUB 93 million). The depreciation of such recognized stripping activity assets is charged in proportion to the volume of recoverable reserves, access to which has been improved.
Additions to property, plant and equipment in the reporting year include RUB 7 million interest expenses (2016: no).
As at 31 December 2017 fixed assets with a carrying amount of RUB 2 081 million (31 December 2016: RUB 3 886 million) were pledged to secure bank loans. The respective amount of secured bank loans is disclosed in note 22.

(a) Impairment

The Group's non-current assets are tested for impairment at each balance sheet date if there are indicators of impairment.

As at the 31 December 2016 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. Management estimateded value in use of cash generating units for testing impairment of non-current assets using after-tax income tax rate equiled to 15.59%. As a result of the testing, management concluded that non-current assets were not impaired as at the 31 December 2016.

As at the reporting date the Group had no indicators of possible non-current asset's impairment.

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 2016	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**
Reclassification	(832)	-	(6)	838	-	-	-	-
Additions	18	107	-	615	15	1 486	123	2 364
Transfers	31	-	21	1 131	4	(1 185)	(2)	-
Disposals	(29)	-	(7)	(434)	(2)	(1)	-	(473)
Balance at 31 December 2017	**5 201**	**1 539**	**4 085**	**11 558**	**114**	**439**	**127**	**23 063**

In the reporting year, based on the results of the component accounting analysis, the Group reclassified historical cost and accumulated depreciation of certain objects from the "Land and buildings" group to "Other production facilities" and "Machinery, equipment, transportation" groups.

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 2016	(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)**
Reclassification	182	-	1	(183)	-	-	-	-
Depreciation charge	(207)	(34)	(176)	(1 421)	(10)	-	-	(1 848)
Disposals	11	-	5	412	2	-	-	430
Balance at 31 December 2017	**(1 398)**	**(279)**	**(1 794)**	**(6 438)**	**(65)**	**-**	**-**	**(9 974)**
Net book value								
At 1 January 2016	**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**
At 31 December 2017	**3 803**	**1 260**	**2 291**	**5 120**	**49**	**439**	**127**	**13 089**

15 Deferred tax assets and liabilities

(a) Unrecognised deferred tax liabilities for investments in subsidiaries

As at 31 December 2017 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 1 085 million (31 December 2016: RUB 1 044 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	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Property, plant and equipment	45	43	(1 064)	(994)	(1 019)	(951)
Intangible assets	-	-	(27)	(14)	(27)	(14)
Inventories	14	19	(149)	(67)	(135)	(48)
Trade and other receivables	308	219	(133)	(118)	175	101
Trade and other payables	56	50	(12)	(16)	44	34
Loans and borrowings	-	-	(30)	(33)	(30)	(33)
Provisions and other liabilities	122	138	-	-	122	138
Tax losses carry-forwards	233	209	-	-	233	209
Deferred tax assets / (liabilities)	**778**	**678**	**(1 415)**	**(1 242)**	**(637)**	**(564)**
Tax set-off	(412)	(353)	412	353	-	-
Net tax assets / (liabilities)	**366**	**325**	**(1 003)**	**(889)**	**(637)**	**(564)**

(c) Movement in deferred tax assets and liabilities

	1 January 2016	Recognised in profit or loss	Recognised in other compre-hensive income	31 December 2016	Recognised in profit or loss	Recognised in other compre-hensive income	31 December 2017
Property, plant and equipment	(786)	(165)	-	(951)	(68)	-	(1 019)
Intangible assets	-	(14)	-	(14)	(13)	-	(27)
Inventories	(22)	(26)	-	(48)	(87)	-	(135)
Trade and other receivables	174	(73)	-	101	74	-	175
Trade and other payables	46	(12)	-	34	10	-	44
Loans and borrowings	5	(38)	-	(33)	3	-	(30)
Provisions and other liabilities	74	63	1	138	(16)	-	122
Tax loss carry-forwards	240	(31)	-	209	24	-	233
	(269)	**(296)**	**1**	**(564)**	**(73)**	**-**	**(637)**

(d) Deferred tax assets for losses carried forward

As at the reporting date the Group recognised deferred tax asset in respect of accumulated tax losses of its subsidiaries in total amount of RUB 233 million included RUB 168 million deferred tax asset recognized in respect of tax losses incurred by a Polish subsidiary in prior periods. Management estimated this amount considering expected future taxable profits by subsidiaries and Group’s intentions to maintain necessary level of intragroup coal sales’ margins.

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 2018-2021.

In the reporting year the deferred tax asset recognized earlier in respect of losses of the Polish subsidiary in the amount of RUB 49 million was utilized in the income tax base.

16 Inventories

Mln RUB	31 December 2017	31 December 2016
Coal in stock	1 229	673
Coal in transit	571	257
Raw materials and consumables	792	580
	2 592	**1 510**

17 Trade and other receivables

Mln RUB	31 December 2017	31 December 2016
Trade receivables	3 420	2 995
VAT receivable	698	295
Compensation receivable from budget	229	464
Other receivables	141	242
Income tax receivable	25	147
Receivables from personnel	6	8
Other financial assets	5	5
Allowance for doubtful debts	(989)	(731)
	3 535	**3 425**

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 2017	31 December 2016
Advances given for transportation services	722	645
Advances given for inventory and other services	123	64
	845	**709**

19 Cash and cash equivalents

Mln RUB	31 December 2017	31 December 2016
Petty cash	7	3
Bank accounts	1 297	1 822
Term deposits	4 126	2 012
	5 430	**3 837**

As at 31 December 2017 deposit rate for the Group was 4.70% - 6.50% for the deposits in RUB (31 December 2016: 7.88% - 9.50%) and 0.01% - 2.00% for the deposits in USD (31 December 2016: 0.10% - 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 2017	31 December 2016
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.

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 the Company declared and paid dividends in total amount RUB 596 million or RUB 6 per ordinary share. In 2016 no dividends were declared and paid.

21 Earnings per share

The basic and diluted earnings per share in 2017 amounting to RUB 21.09 (2016: RUB 6.02) was calculated on the profit for the year attributable to shareholders of RUB 2 093 million (2016: RUB 598 million), and a weighted average number of ordinary shares outstanding of 99 258 355 in 2017 (2016: 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 2017**	**31 December 2016**
Non-current liabilities		
Unsecured bank loans	5 868	4 320
Secured bank loans	1 215	1 495
Loans from other companies	128	131
	7 211	**5 946**
Current liabilities		
Unsecured bank loans	1 114	2 327
Secured bank loans	1 351	1 004
Loans from other companies	17	18
Interest accrued	25	29
	2 507	**3 378**

Bank loans are secured by the property, plant and equipment with a carrying amount of RUB 2 081 million (31 December 2016: RUB 3 886 million). Refer to note 14.

(a) Terms and debt repayment schedule:

				2017		2016	
Mln RUB	**Currency**	**Effective interest rate**	**Year of maturity**	**Carrying amount**	**Face value**	**Carrying amount**	**Face value**
Secured bank loans	USD	4,7%	2018 - 2019	1 156	1 156	1 395	1 395
Secured bank loans	RUB	12,75 - 13,0%	2018 - 2019	754	754	987	987
Secured bank loans s	RUB	12,1%	2018 - 2021	675	675	-	-
Unsecured bank loans	USD	3,5 - 4,47%	2018 - 2019	2 279	2 279	1 476	1 476
Unsecured bank loans	Euro	1,8 - 2,4%	2018 - 2020	3 110	3 110	493	493
Unsecured bank loans	RUB	8,9 - 9,3%	2018 - 2019	287	287	-	-
Unsecured bank loans	RUB	9,35 - 9,75%	2019 - 2020	1 312	1 312	-	-
Loans from the companies	RUB	8,0 - 9,5%	2018 - 2037	145	299	149	317
Unsecured bank loans	USD	4,65 - 5,3%	2017	-	-	3 656	3 656
Secured bank loans	RUB	14,3%	2017	-	-	137	137
Unsecured bank loans	RUB	12,91%	2017	-	-	672	672
Unsecured bank loans	RUB	2,00%	2017	-	-	265	265
Unsecured bank loans	RUB	11,2 - 12,4%	2017	-	-	94	94
				9 718	**9 872**	**9 324**	**9 492**

The borrowings presented above include interest payable.

(b) Reconciliation of changes in liabilities and cash flows from financing activities

Mln RUB	Loans and borrowings
Balance as at 1 January 2017	**9 324**
Changes from financing cash flows	
Proceeds from loans and borrowings	15 365
Repayment of borrowings	(14 693)
Total changes from financing cash flows	**672**
The effect of changes in foreign exchange rates	**(270)**
Other changes in liabilities	
Capitalized borrowing costs	7
Interest expenses	592
Interest paid	(607)
Total liability-related other changes	**(8)**
Balance at 31 December 2017	**9 718**

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 2017	31 December 2016
Site restoration liabilities	372	323
Deferred income/revenue	-	184
Concession agreement liabilities	144	87
Retirement benefit liability	68	66
Non-current provisions and liabilities	**584**	**660**
Net assets attributable to minority participants in LLC entities	160	161
Firm hedges commitment	111	-
Retirement benefit liability	15	15
Current provisions and liabilities	**286**	**176**

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.

In 2017, RUB 9 million (2016: RUB 7 million) were attributed to the cost of coal production. Additionally, RUB 13 million (2016: RUB (17) million) was charged to the cost of sales as a result of changing in accounting estimates. The Group uses a nominal discount rate based on an average

yield on Russian government bonds with similar maturities. As at 31 December 2017 the average yield amounted to 7.92% per year (31 December 2016: 8.49% 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

The Group has liabilities under long-term interest-free loans until 2036-2037 received from their customers. Contractual terms have it that the Group provide a certain minimum number of transport services to these customers until full repayment of the loans, using its own railway infrastructure. As a consequence, the Group has made commitments for the construction of a number of railway infrastructure objects to increase capacity to the required level on its own routes.

Relevant liability was recognized by the Group as part of loans and borrowings at fair value. The effect of discounting at the moment of recognition was reflected as deferred income, recognition of which as part of revenue was expected evenly throughout the duration of the loan agreements.

As at the reporting date, the corresponding contracts for the provision of transport services between customers and the Group were terminated. Due to this circumstance, the Group's management analyzed the provisions of the above loan agreements and the status of fulfilment of obligations by the Group under contracts for the provision of services to customers at the time of their dissolution. Taking into account the termination of contracts for the provision of transport services to these clients and the lack of consignee/consignor status for these clients, on the tracks adjacent to the uncommon-use railway track belonging to the Group, as well as full implementation of infrastructure construction commitments, the Group's management concluded that the obligations on target use of funds and ensuring the contractual volume of traffic on the reporting date made by the Group, are carried out in full. Accordingly, the deferred income as at the date of termination of contracts was recognized in revenues from sales of transport services in full, in the amount of RUB 181 million (see note 6).

(c) Concession agreement liabilities

As part of concession agreements with three municipalities in force at the reporting date, the Group, on the one hand, has the right to charge consumers for utility services rendered with the use of the property transferred to the Group, and, on the other hand, has the obligation to carry out the reconstruction of the infrastructure objects transferred to the Group according to the established schedules. The agreements are valid until 2025, 2030 and 2032.

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 8.21% - 8.42% (2016: 7.65%-8.40%) per annum.

24 Trade and other payables

Mln RUB	31 December 2017	31 December 2016
Trade payables	1 889	839
Payables to personnel	395	290
Taxes (other than income tax) payables	383	277
Payables for property, plant and equipment	312	208
Payables for transportation services and other payables	196	176
Advances received	147	48
Income tax payable	98	18
Payables on completed hedging transactions	27	-
	3 447	**1 856**

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.

Excluding the items shown below the management of the Group believes that at the 31 December 2017 and 31 December 2016 the carrying amounts of the Group`s financial assets and liabilities are a reasonable approximation of their fair values.

Mln RUB	31 December 2017		31 December 2016	
	Carrying amount	Fair value Level 3	Carrying amount	Fair value Level 3
Loans and borrowings measured at amortised cost	9 718	9 906	9 324	9 386

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:

	31 December 2017	31 December 2016
Loans and borrowings measured at amortised cost	4.64% - 5.12% (USD)	4.40% - 4.81% (USD)
	2.96% (EURO)	2.63% (PLN)
	8.82% - 9.48% (RUB)	11.33%-11.53% (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

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.

As at 31 December 2017 and 31 December 2016 the individual balance of one of the polish consumer before impairment exceeded 10% of total trade receivables. The management reviewed and analysed these balance for impairment. The result is presented further, in the section Impairment losses.

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.

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	31 December 2017		31 December 2017	
	Trade and other receivables	Impairment	Trade and other receivables	Impairment
Not past due	2 058	(18)	1 858	-
Past due 0-30 days	181	-	408	-
Past due 31-60 days	133	-	183	-
Past due 61-90 days	87	-	109	-
Past due 91-180 days	80	-	90	(2)
Past due more than 180 days	1 251	(971)	1 053	(729)
	3 790	**(989)**	**3 701**	**(731)**

As at 31 December 2017 the trade receivables of the Group before allowance included balances of several Polish counterparties in the total amount of RUB 1,044 million (31 December 2016: RUB 915 million). As at the reporting date management of the Group in light of all known facts and circumstances assesses the probability of recovery of those receivables as low. As a result, the impairment of those receivables at the reporting date amounted to RUB 846 million (31 December 2016: RUB 638 million). The remainder of the impairment losses at 31 December 2017 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	2017	2016
Balance, as at beginning of the year	(731)	(979)
Recognised in the statement of profit or loss and other comprehensive income	(186)	(22)
Effect of changes in foreign currency exchange rate	(92)	183
Amounts written off against bad debt provision	20	87
Balance, as at end of the year	**(989)**	**(731)**

Other financial instruments as at 31 December 2017 and 31 December 2016 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 2017	31 December 2016
Cash and cash equivalents	5 430	3 837
Trade receivables	2 431	2 264
Other receivables	370	706
Other financial assets	6	6
	8 237	**6 813**

As at 31 December 2017, 72% (31 December 2016: 87%) and 11% (31 December 2016: less than 1%) of cash and cash equivalents were held in one of the largest Russian bank and in the largest Swiss bank respectively. About 17% were allocated between four 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 credit ratings of these banks are presented below:

	31 December 2017	31 December 2016
BBB-, based on international scale of Fitch Ratings	4 193	3 354
A-, based on international scale of Fitch Ratings	604	33
BB-, based on international scale of Fitch Ratings	259	0
AAA, based on scale of Russian rating agency Expert RA	154	304
BBB, based on scale of Russian rating agency Expert RA	114	133
BB+, based on international scale of Standard&Poor's	57	6
BB+, based on international scale of Fitch Ratings	42	4
Petty cash	7	3
	5 430	**3 837**

(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 2017, 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 8.96% p.a. (2016: 11.69% p.a.) and in foreign currency at 4.03% p.a. (2016: 5.38% p.a.). The unused amount of these facilities was RUB 16 984 million as at the reporting date (31 December 2016: RUB 5 491 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 2017

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	2 585	796	777	993	240	279	-	-	3 085
Unsecured bank loans	6 988	1 262	132	3 376	2 810	-	-	-	7 580
Loans from other companies	145	8	8	16	16	16	16	219	299
Trade and other payables	2 819	2 819	-	-	-	-	-	-	2 819
Net assets attributable to minority participants in LLC entities	160	160	-	-	-	-	-	-	160
	12 697	**5 045**	**917**	**4 385**	**3 066**	**295**	**16**	**219**	**13 943**

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**

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, world coal prices 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) The risk of changes in fair value

In the reporting year, in order to hedge the risks associated with changes in contract export prices for coal based on the values of the API2 index, the Group, as part of the developed hedging policy, conducted transactions with derivative financial instruments and classified them as financial instruments at fair value. The group applies special hedge accounting to reflect the effective portion of the change in the fair value of financial instruments as part of the coal sales revenue for the reporting period in which the transaction was completed. The group reflects the revaluation of the fair value of outstanding transactions as part of hedging instruments and reserves, and other liabilities.

In 2017, the loss on hedging transactions completed in the reporting period in the amount of RUB 55 million was attributed to a decrease in revenues from coal sales. Unpaid debt to banks on completed transactions in the amount of RUB 27 million is reflected in trade and other payables, the fair value of liabilities on hedging transactions outstanding at the reporting date in the amount of RUB 111 million is reflected in reserves and other liabilities. As at the reporting date, the carrying amount of the Group's liabilities for hedge transactions that will be performed after 31 December of the reporting year, was determined using the level 3 inputs of the fair value hierarchy.

(ii) 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 and sensitivity analysis

The following exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2017	**2016**	**2017**	**2016**
USD 1	58.3342	67.0349	57.6002	60.6569
EUR 1	65.8842	74.2310	68.8668	63.8111
PLN 1	15.4810	17.0258	16.5110	14.4445
CHF 1	59.2549	68.0768	58.9743	59.4151
JPY 1	0.5199	0.6164	0.5115	0.5183

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

At the 31 December 2017:

Mln RUB	USD-denominated	EUR-denominated	PLN-denominated	CHF-denominated	JPY-denominated
Trade and other receivables	821	-	554	-	-
Cash and cash equivalents	4 938	103	162	-	-
Trade and other payables	(29)	(9)	(297)	(2)	(99)
Loans and borrowings	(3 435)	(3 110)	-	-	-
Net exposure	**2 295**	**(3 016)**	**419**	**(2)**	**(99)**

At the 31 December 2016:

Mln RUB	USD-denominated	EUR-denominated	PLN-denominated
Trade and other receivables	564	-	650
Cash and cash equivalents	3 340	-	33
Trade and other payables	(101)	-	(123)
Loans and borrowings	(6 527)	(493)	-
Net exposure	**(2 724)**	**(493)**	**560**

The sensitivity analysis to changes in the exchange rate of the ruble was conducted in relation to the most significant foreign currencies used in the activities of the Group and it is assumed 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	
	2017	**2016**
Strengthening/(weakening) of the RUB against USD for 10%	(230)/230	272 / (272)
Strengthening/(weakening) of the RUB against PLN for 10%	(42)/42	(56) / 56
Strengthening/(weakening) of the RUB against EURO for 10%	302/(302)	49 / (49)

(iii) 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 2017	31 December 2016
Fixed rate interest-bearing instruments:		
Deposits	4 126	2 012
Loans and borrowings	(9 718)	(9 324)
	(5 592)	**(7 312)**

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.

(iv) Fair Value Hedging

(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 2016-2017.

(f) Offsetting of financial assets and financial liabilities

As at 31 December 2017 and 31 December 2016 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 167 million (2016: RUB 166 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 508 hectares of land (2016: 428 hectares) and made payments during the year of RUB 38 million (2016: RUB 64 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 2017 the Group has entered into a number of contracts to purchase plant and equipment for RUB 1 417 million (2016: RUB 934 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 and also with the reconstruction of coal enrichment facilities.

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 changed 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.

29 Related party transactions

(a) Control relationships

As at 31 December 2017 and 31 December 2016 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 2017 and 31 December 2016.

(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	**2017**	**2016**
Salaries and bonuses	305	221
Contributions to State pension fund	60	43
Total management remuneration	**365**	**264**

(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**		**Outstanding balance**	
	2017	**2016**	**31 December 2017**	**31 December 2016**
Services received	6	20	1	-
	6	**20**	**1**	**-**

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**		**Outstanding balance**	
	2017	**2016**	**31 December 2017**	**31 December 2016**
Sale of coal	27	23	2	3
Other revenue	5	2	5	-
	32	**25**	**7**	**3**

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

Cash flow hedging

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.

Fair Value hedging

To manage price risks associated with changes in the market quotes for indices, on the basis of which the cost of traded coal on some export contracts is determined, the Group uses fair value hedging. Derivatives recognized as hedging instruments are classified as financial instruments at fair value. Before a hedged transaction is executed, the effective portion of the hedge result is recognized in the Group's assets (liabilities) and transferred to profit or loss in the same period when the incomes and expenses associated with the hedged transaction are recognized. The ineffective portion of the hedge result is recognized immediately as part of profit or loss.

(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 - 80 years;
- Machinery, equipment and vehicles 5 - 35 years;
- Fixtures and fittings 3 - 11 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.

33 New Standards and Interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

(a) Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 (see (b)) and IFRS 15 (see (c)) will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 January 2018 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

Mln RUB	**Estimated impact of adoption of IFRS 9 and IFRS 15**			
	As reported at 31 December 2017	**Estimated adjustments due to adoption of IFRS 9**	**Estimated adjustments due to adoption of IFRS 15**	**Estimated adjusted opening balance at 1 January 2018**
Retained earnings	8 366	(45)	-	8 321
NCI	1	-	-	1
	8 367	**(45)**	**-**	**8 322**

The total preliminary estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is RUB 45 million because of decrease of retained earnings due to recognition of impairment losses on trade and other receivables in this amount.

(b) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financialassets, financial liabilities and some contracts to buy or sell non-financial items. This standardreplaces IAS 39 *Financial Instruments: Recognition and Measurement*.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement abouthow changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always appliesfor trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model.

Based on the impairment methodology described below, the Group has preliminary estimated that application of IFRS 9’simpairment requirements at 1 January 2018 resultsin additional impairment losses as follows.

Mln RUB	Estimated additional impairment recognised at 1 January 2018
Trade and other receivables, including contract assets, as at 31 December 2017	(56)
Cash and cash equivalents	-
Gross additional impairment losses	**(56)**

	Estimated adjustment to equity at 1 January 2018
Decrease in retained earnings	(45)
Decrease in non-controlling interests	-
Decrease in equity	**(45)**

The following analysis provides further detail about this estimated impact at 1 January 2018.

Trade and other receivables, including contract assets

The expected credit losses were calculated on the basis of actual data on credit losses for the last two years. Counterparties were divided into groups on the similarity of solvency characteristics and exposure to credit risk. Actual historical data on credit losses have been adjusted to take into account differences in economic conditions in the period for which historical data were collected, the current period and the economic conditions expected by the Group during the maturity of the receivable.

The Group preliminary estimated that application of IFRS 9’s impairment requirements at 1 January 2018 results in an increase of RUB 56 million over the impairment recognised under IAS 39 before income tax.

The following table provides information about the preliminary estimated exposure to credit risk and ECLs for trade and other receivables as at 1 January 2018.

Mln RUB	Estimated gross carrying amount	Weighted-average loss rate	Estimated loss allowance	Credit-impaired
Current (not past due)	2 058	4,46%	(92)	No
1-30 days past due	181	10,00%	(18)	No
31-60 days past due	133	12,03%	(16)	No
61-90 days past due	87	12,64%	(11)	No
91-180 days past due	80	10,13%	(8)	No
181-360 days past due	141	15,60%	(22)	No
More than 360 days past due	1 110	79,10%	(878)	Yes
	3 790		(1 045)	

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements onrebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Group does not currently undertake hedges of such risk components.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases.

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective.

The Group estimates that the application of the requirements of IFRS 9 to hedge accounting as of January 1, 2018 will not have a significant impact on the financial statements.

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(vi) Transition

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will generally be recognised in retained earningsand reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances thatexist at the date of initial application.:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

(c) IFRS 15 Revenue from Contracts with Customers

(i) Sales of coal

The revenue from the sale of coal is recognized when all significant risks and rewards of ownership are transferred to the buyer, and the likelihood of obtaining appropriate reimbursement is high, costs incurred and potential returns of coal can be measured reliably.

In accordance with IFRS 15, revenue will be recognized when the buyer receives control of the goods. Based on its assessment, the Group does not expect that the adoption of IFRS 15 will have a significant impact on the consolidated financial statements in respect of revenue from sales of coal.

(ii) Revenue from rendering services

The group provides utility services to businesses and individuals, as well as coal transportation and storage services, and recognizes revenue from the sale of services as they are rendered at fair value of reimbursement with a high probability of receipt thereof. These services are provided to buyers separately from the sale of goods, at prices and tariffs of a separate sale. Consequently, the Group does not expect the application of IFRS 15 to result in significant changes in the timing of recognition of revenue generated from these services.

(d) IFRS 16 *Leases*

IFRS 16 replaces existing leases guidance including 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*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lesseerecognises a right-of-use asset representing its right to use the underlying asset and a lease liabilityrepresenting its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.