

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Millions of US Dollars, unless otherwise stated

1. General information

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

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

SUEK HOLDINGS LTD is the immediate parent company of SUEK.

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

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

- mineral rights carried at fair value starting from 1 January 2013; and
- derivative financial instruments and available for sale financial assets which are stated at fair value.

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

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

The following RUB/USD exchange rates were applied at 31 December and during the years then ended:

	2017	2016
Year end	57.60	60.66
Average rate	58.35	67.03

Adoption of new and revised standards and interpretations

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

- *Amendments to IAS 12 “Income Taxes”* clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment does not have a significant impact on the Group’s consolidated financial statements.
- *Amendments to IAS 7 “Statement of Cash Flows”* require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has added the required disclosure to these consolidated financial statements (see note 20).

A number of new standards and amendments to standards are not yet effective at 31 December 2017, and have not been early adopted:

- *IFRS 9 “Financial Instruments”* (effective for annual periods beginning after 1 January 2018 with earlier application permitted) supersedes IAS 39 “Financial Instruments: Recognition and Measurement” and introduces new classification and measurement requirements, a single, forward-looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting. This standard does not have a significant impact on the Group’s consolidated financial statements.
- *IFRS 15 “Revenue from contracts with customers”* (effective for annual periods beginning after 1 January 2018 with earlier application permitted) outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The Group assessed the impact of the new standard on the Group’s performance and financial position by identifying and analysing classes of transactions where revenue recognition under currently applied IAS 18 might be different from IFRS 15 requirements. As a result, the Group identified certain areas of focus which mainly related to revenue recognition of services provided to customers. The Group identified that under contract conditions related to significant portion of coal sales the Group promises to provide shipping and other freight services after the date when control of the goods passes to the customer at the loading port. Under IAS 18, the Group recognises revenue for such services and associated costs in full immediately after loading. Under IFRS 15 such revenue is expected to be a separate performance obligation and shall be recognised over time rather than at a point in time, however, due to the short lead time to deliver such services and absence of individually material transactions, the potential impact on the Group’s performance and financial position was estimated inconsequential. The group did not identify any other areas where new standard might have a material effect upon adoption. The Group will continue monitoring the impact of treating freight related services as a separate performance obligation and will adjust its accounting policies as appropriate in the future if and when such impact becomes material.

- *IFRS 16 “Leases”* (effective for annual periods beginning after 1 January 2019 with earlier application permitted, if IFRS 15 is also adopted) supersedes IAS 17 “Leases” and provides a new approach to lease accounting that eliminates the classification of leases as either operating leases or finance leases for a lessee and requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. The Group is currently assessing the impact of the new standard on the consolidated financial statements.
- *IFRIC 22 “Foreign currency transactions and advance consideration”* (effective for annual periods beginning on or after 1 January 2018 with earlier application permitted) provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation does not have a significant impact on the Group’s consolidated financial statements.

3. Significant accounting policies

3.1. Basis of consolidation

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.

The acquisition of subsidiaries from third parties is accounted for using the purchase method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition. Non-controlling (minority) interest is measured at its proportionate interest in the identifiable assets and liabilities of the acquiree. 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.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Changes in ownership interests by the Group in a subsidiary, while maintaining control, are recognised as an equity transaction.

Upon a 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.

Business combination 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 additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

3.2. Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the respective functional currency at the exchange rate ruling at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in profit or loss.

The translation of the financial statements from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 “*The Effects of Changes in Foreign Exchange Rates*” as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all income and expenses in the consolidated statement of profit or loss are translated at the average exchange rates for the years presented;
- resulting exchange differences are included in equity and presented separately; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the annual average exchange rates for the years presented. Resulting exchange differences are presented as foreign exchange effect on cash and cash equivalents.

Exchange differences arising from the revaluation of the intra-group debt accounted for as a part of net investments in foreign entities are recognised in other comprehensive income in the consolidated financial statements. Certain intra-group debt to Russian subsidiaries is classified as part of net investments.

3.3. Property, plant and equipment

Basis of carrying value of property, plant and equipment.

Mineral rights. Mineral rights include expenditures incurred in acquiring mineral and development rights. Mineral rights are classified as property, plant and equipment and carried at fair value starting from 1 January 2013.

The fair value is determined by discounting future cash flows which can be obtained from operations of the mines based on the life-of-mine plans and deducting the fair value of the operating tangible fixed assets.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the mineral rights asset and the net amount is restated to the revalued amount of the asset. Revaluations are performed on an annual basis.

A revaluation increase is recognised in other comprehensive income and accumulated in equity except to the extent it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the mineral rights asset and depreciation based on the asset's historical cost, is transferred from the revaluation reserve to retained earnings.

Property, plant and equipment, other than mineral rights.

Property, plant and equipment, other than mineral rights, is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalised borrowing costs. Where an item of property, plant and equipment, other than mineral rights, comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment, other than mineral rights, that is accounted for separately is capitalised with the carrying amount of the component that has been replaced. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in profit or loss as an expense as incurred.

Depreciation. Mining assets are depreciated using the unit-of-production method, based on the estimated proven and probable coal reserves to which they relate, or are written off if the mine is abandoned or where there is an impairment in value. The impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. Estimated proven and probable coal reserves determined in accordance with internationally recognised standards for reporting coal reserves reflect the economically recoverable coal reserves which can be legally recovered in the future from coal deposits.

Tangible assets, other than mining assets, are depreciated using the straight-line method based on estimated useful lives. For each item the estimated useful life has due regard to both its own physical life limitations and, if applicable, the present assessment of the economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all tangible assets, with annual reassessments for major items.

The estimated useful lives of property, plant and equipment, including mineral rights, are as follows:

- mineral rights average of 58 years
- buildings, structures and utilities 7 – 44 years
- machinery, equipment and transport 4 – 32 years

Leased assets. Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or the present value of future minimum lease payments at the date of acquisition, with the related financial lease liability recognised at the same value. Capitalised leased assets are depreciated over their estimated useful lives or the term of the lease, if shorter.

Finance lease payments are allocated using the effective interest rate method, between:

- the lease finance cost, which is included in finance costs; and
- the capital repayment, which reduces the related lease obligation to the lessor.

3.4. Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

3.5. Impairment

The Group reviews the carrying amounts of its tangible and intangible assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

A recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset or CGU is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment losses are recognised in profit or loss for the year. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of the other assets in CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

3.6. Research and exploration expenditure

Pre-exploration costs are recognised in profit or loss as incurred.

Exploration and evaluation costs (including geophysical, topographical, geological and similar types of expenditure) are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting coal is considered to be determinable when proven coal reserves are determined to exist. Expenditure deemed to be unsuccessful is recognised immediately in profit or loss.

3.7. Inventories

Coal. Coal is measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Production costs include on-mine and processing costs, as well as transportation costs to the point of sale.

Consumable stores and materials. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.8. Financial instruments

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

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.

The Group has the following categories of non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held to maturity financial assets. If the Group has the positive intent and ability to hold to maturity debt securities, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.

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 comprise trade and other receivables.

Cash and cash equivalents. Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other non-derivative financial instruments. Other non-derivative financial instruments 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.

Non-derivative financial liabilities. The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities 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 liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments. The Group may enter into a variety of derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk, interest rate risk and risk of changes in the price of freight.

Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

When a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, or the designation is revoked, then hedge accounting is discontinued prospectively. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is reclassified to profit or loss.

Changes in the fair value of derivatives not designated as cash flow hedges are recognised in profit or loss.

Impairment of non-derivative 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 (including equity securities) 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, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or 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.

Financial assets measured at amortised cost. The Group considers evidence of impairment for these assets at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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. 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.

Available-for-sale financial assets. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

3.9. Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

3.10. Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting year is recognised as an expense in that reporting year.

Defined contribution plan. The Group contributes to the Pension Fund of the Russian Federation, a defined contribution pension plan. The only obligation of the Group is to make the specified contributions in the year in which they arise and these contributions are expensed as incurred.

Defined benefit plans. In accordance with current legislation and internal documentation the Group operates defined benefit plans whereby field workers of its coal-producing subsidiaries are entitled to a lump sum payment. The amount of benefits depends on age, years of service, compensation and other factors.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. Actuarial gains and losses are recognised directly in other comprehensive income.

The defined benefit obligation is calculated annually by the Group. The Projected Unit Credit Method is used to determine the present value of defined benefit obligations and the related current service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

3.11. Income tax

Income tax expense comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the 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. In addition, deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill and temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

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. Deferred tax assets and

liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

3.12. Revenue recognition

Revenue represents the invoiced value for coal supplied to customers, excluding value-added tax, and is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.13. Operating lease payments

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit or loss in the year in which they are due in accordance with lease terms.

3.14. Dividends declared

Dividends and related taxation thereon are recognised as a liability in the year in which they have been declared and become legally payable.

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual Group entities. These amounts may differ significantly from the amounts recognised in the Group's consolidated IFRS financial statements.

3.15. Overburden removal expenditure

In open pit coal mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable coal.

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

Due to the specifics of the geology of the Group's mining assets, the period required to gain access to a coal seam is short, and the stripping ratio (volume of overburden removed over the

volume of coal extracted) is relatively constant over the periods. Therefore, stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

3.16. Environmental obligation

Environmental obligation includes provision for decommissioning and site restoration costs.

Environmental provision is recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the balance sheet date:

- to dismantle and remove its items of property, plant and equipment (decommissioning); and
- to restore site damage after the commencement of coal production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision through unwinding of the obligation over the life of the mine, due to the passage of time, is recognised as a finance cost in profit or loss.

Changes in the obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit or loss.

Gains from the expected disposal of mining assets at the end of the life of the mine are not taken into account when determining the provision.

3.17. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss for the year in which they are incurred.

3.18. Goodwill

Goodwill arises on acquisitions and is recognised as an asset initially measured at cost, being the excess of the cost of the business combination over the Group's share of the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. If the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, after reassessment, exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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. Transaction costs incurred in a business combination are expensed.

The Group elected not to restate past business combinations at the date of adoption of IFRS.

4. Critical accounting judgements and estimates

In the process of applying the Group's accounting policies management has made the following principal judgements and estimates that have a significant effect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

Coal reserve estimates. Coal reserve estimates are used as the basis for future cash flows, which enter into the valuation of mineral rights, the determination of provision for environmental obligations, calculations of amortisation and depreciation of mining assets, the unwinding of discount on environmental obligations and the related deferred taxes.

The coal reserve estimates represent the quantity of coal expected to be mined, processed and sold at prices at least sufficient to recover the estimated total costs, the carrying value of the investment and anticipated additional expenditures ("proven and probable coal reserves" in international mining terminology). The estimates are based on several assumptions about the physical existence of coal reserves, future mining and recovery factors, production costs and coal prices and have been calculated using the assessment of available exploration and other data. The Group undertakes revisions of the coal reserve estimates, which are confirmed by independent consulting mining engineers, as appropriate.

Although management's long-term mine plans exceed the remaining useful life of some of the mining licenses of the Group, the Group has a legal right to apply for the extension of the licenses for its existing mining resources and therefore management is confident that the licenses will be extended provided that it is the same coal resource within the original mining license and that certain other conditions are met. Extensions to new seams or adjacent areas are often subject to open auctions. Delay or failure in securing relevant government approvals or licences, as well as any adverse change in government policies, may cause a significant adjustment to development and acquisition plans, which may have a material adverse effect on the Group's financial position and performance.

Valuation of mineral rights. Mineral rights for coal extraction are stated at their fair value based on reports prepared by internal specialists of the Group at each year end.

Since there is no active market for mineral rights, the fair value is determined by discounting future cash flows, which can be obtained from the operations of the mines based on the life-of-mine plans, and deducting the fair value of the operating tangible fixed assets. The Group did not identify any material intangible assets which could be deducted in arriving at the fair value of the mineral rights.

Since the operating tangible fixed assets are carried at historical cost, for the purposes of regular revaluation of mineral rights their fair value is determined either based on market prices for similar items of tangible fixed assets recently acquired or constructed by the Group or, in absence of such items, by applying a price index for the relevant year of acquisition for mining equipment to the residual value of items.

At 31 December 2017 the fair value of mineral rights was determined based on the following key assumptions:

- the cash flows were projected based on actual operating results and life-of-mine models constructed for each cash-generating mining unit and based on an assessment of proven and probable reserves using projected volumes of coal and the available capacity of the transport infrastructure in the foreseeable period and thereafter. Management opts to involve professional appraisers to perform estimation of reserves as appropriate;
- export coal sales volumes were estimated to grow at an average 1% for the foreseeable forecasted period 2018-2029;
- export coal prices for Asian and European markets estimated to grow with average 12% in 2018 and to fall at an average of 2% in 2019-2022 based on the forward rates and a consensus forecast of investment banks and thereafter in line with expected long-term USD inflation;
- domestic coal sales volumes were estimated to grow at an average rate of 2% for the foreseeable forecasted period 2018-2029;
- domestic coal prices estimated to grow with average 3% in 2018 and to grow in line with RUB inflation thereafter;
- regulated railroad tariffs for 2018 were estimated to grow at an average rate of 5% for domestic and export shipments and to grow in line with RUB inflation thereafter;
- the RUB/USD exchange rate was estimated in 2018 at the level of 58.4 RUB/USD. For 2018-2022 estimate was based on the RUB/USD forward rate and a consensus forecast of investment banks and was indexed by the ratio between the expected RUB inflation of the corresponding year and the long-term USD inflation thereafter;
- cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 13.3% for mining units, in Russian Rouble terms.

At 31 December 2017 the total effect of the revaluation of the mineral rights was an increase of 1,321 million USD (31 December 2016 – an increase of 547 million USD); the after-tax effect on equity was an increase of 1,057 million USD (31 December 2016 – an increase of 437 million USD).

Example changes in key assumptions would have the following effect on the fair value of the mineral rights:

	(Decrease)/ increase of the fair value
Increase in weighted average cost of capital of 1%	(718)
Increase in export coal prices of 1%	267
Increase in RUB/USD exchange rate of 1%	246
Increase in export coal sales volumes of 1%	168
Increase in regulated railroad tariffs growth of 1%	(84)
Increase in domestic coal prices of 1%	55
Increase in domestic coal sales volumes of 1%	87

Determination of recoverable amount of property, plant and equipment of the Coal segment (other than mineral rights).

The recoverable amount of the property, plant and equipment of the coal segment (other than mineral rights) as at 31 December 2017 was determined either based on market prices for similar items of machinery and equipment recently acquired by the Group or, if no such purchases were made, by applying a price index for the relevant year of acquisition for mining equipment to the residual value of items. As a result of the testing no impairment loss was recognised.

Determination of recoverable amount of property, plant and equipment and goodwill of Ports and logistics assets.

The recoverable amount was determined based on value-in-use calculations using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The following key assumptions were used in determining the recoverable amounts of each of the cash-generating units:

- cash flow projections were based on the business model for 2018-2022;
- coal transshipment volumes were projected to accommodate primarily own sales requirements;
- port tariffs were projected to decrease at an average rate of 8% in 2018 and to grow at an average rate of 2% per annum thereafter;
- cash flow projections were discounted to their present value at the nominal weighted average cost of capital of 11.6% for port units in RUB terms.

As a result of the testing no impairment loss was recognised.

The model applied for impairment testing is not sensitive to assumptions used by management because value in use is significantly greater than carrying values of cash generating units' assets.

5. Segmental information

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

Operating segments identified by management are coal mining, ports and logistics, sales and distribution and corporate segments. The coal mining segment represents the operations of the coal mining companies including extraction and washing; the ports and logistics segment includes railroad transportation assets and ports; the sales and distribution segment represents sales and distribution companies and corporate segment includes holding companies.

Operating segment information for the Group at 31 December 2017 and for the year then ended is as follows:

	Coal mining	Ports and logistics	Sales and distribution	Corporate	Inter-segment elimination	Total
Segment revenue and profitability						
Segment external revenues	1,105	99	4,489	—	—	5,693
Inter-segment revenues	3,301	1,657	—	74	(5,032)	—
Segment expenses	(3,427)	(1,594)	(4,582)	(46)	5,032	(4,617)
Operating profit/(loss)	979	162	(93)	28	—	1,076
Depreciation and amortisation	(390)	(44)	—	(4)	—	(438)
Interest expense	(108)	(15)	(5)	(165)	127	(166)
Interest income	3	15	1	121	(127)	13
Profit/(loss) before tax	848	167	(95)	(42)	—	878
Income tax expense	(183)	(34)	(1)	(3)	—	(221)
Net profit/(loss) for the year	665	133	(96)	(45)	—	657
Capital expenditures incurred during the year	589	134	—	2	—	725
Segment assets and liabilities						
Total segment assets	10,556	1,037	1,303	808	(3,474)	10,230
Total segment liabilities	3,863	296	776	4,280	(3,474)	5,741

Operating segment information for the Group at 31 December 2016 and for the year then ended is as follows:

	Coal mining	Ports and logistics	Sales and distribution	Corporate	Inter-segment elimination	Total
Segment revenue and profitability						
Segment external revenues	921	74	3,007	—	—	4,002
Inter-segment revenues	2,247	1,284	—	49	(3,580)	—
Segment expenses	(2,633)	(1,188)	(3,121)	(50)	3,580	(3,412)
Operating profit/(loss)	535	170	(114)	(1)	—	590
Depreciation and amortisation	(360)	(35)	(1)	(3)	—	(399)
Interest expense	(88)	(15)	(4)	(120)	95	(132)
Interest income	2	11	—	92	(95)	10
Profit/(loss) before tax	396	182	(137)	(37)	—	404
Income tax (expense)/benefit	(79)	(33)	20	2	—	(90)
Net profit/(loss) for the year	317	149	(117)	(35)	—	314
Capital expenditures incurred during the year	379	124	—	1	—	504
Segment assets and liabilities						
Total segment assets	8,334	904	1,086	723	(2,756)	8,291
Total segment liabilities	3,072	220	637	4,285	(2,756)	5,458

6. Revenue

	2017	2016
Coal sales	5,287	3,826
Pacific region	2,494	1,745
Atlantic region	1,696	1,166
Russian Federation	1,097	915
Petroleum coke sales	235	54
Other	171	122
Total	5,693	4,002

7. Cost of sales

	2017	2016
Coal and petroleum coke purchased from third parties	724	410
Labour	460	359
Consumables and spares	408	331
Depreciation and amortisation	399	369
Repairs and maintenance services	114	87
Purchased power	67	55
Transportation services	60	35
Drilling and blasting services	45	34
Tax on mining	40	27
Personnel transportation services	32	25
Fire and rescue brigade expenses	23	18
Property and other taxes	15	17
Land rent	15	13
Other	66	51
Total	2,468	1,831

8. Distribution costs

	2017	2016
Railway services	1,268	907
Freight	267	225
Stevedoring from third parties	176	141
Rent of rail cars	121	66
Labour	39	36
Depreciation and amortisation	39	30
Repair and maintenance services	36	21
Consumables and spares	18	13
Property and other taxes	3	2
Other	27	22
Total	1,994	1,463

9. General and administrative expenses

	2017	2016
Salaries	81	64
Consulting, legal, audit and other professional services	26	19
Charitable donations	22	15
Office rent	4	4
Other	13	12
Total	146	114

10. Finance Costs, NET

	2017	2016
Interest expense	166	132
Bank commissions and charges	24	22
Unwinding of discount on provisions	8	4
Interest income	(13)	(10)
Total	185	148

11. Property, plant and equipment

	Mineral rights	Buildings, structures and utilities	Machinery, equipment, transport and other	Construction-in-progress	Total
Cost					
Balance at 1 January 2016	4,333	786	1,735	157	7,011
Revaluation of mineral rights	547	—	—	—	547
Additions	3	2	32	467	504
Transfers	—	105	317	(422)	—
Disposals	(2)	(2)	(21)	(5)	(30)
Effect of translation to presentation currency	335	17	62	11	425
Balance at 31 December 2016	5,216	908	2,125	208	8,457
Revaluation of mineral rights	1,321	—	—	—	1,321
Additions	14	30	—	681	725
Transfers	—	148	431	(579)	—
Disposals	—	(5)	(44)	(1)	(50)
Effect of translation to presentation currency	85	4	25	7	121
Balance at 31 December 2017	6,636	1,085	2,537	316	10,574
Accumulated depreciation and amortisation					
Balance at 1 January 2016	373	223	907	1	1,504
Depreciation and amortisation	139	71	202	—	412
Disposals	—	(3)	(17)	(1)	(21)
Effect of translation to presentation currency	29	6	30	—	65
Balance at 31 December 2016	541	297	1,122	—	1,960
Depreciation and amortisation	170	65	218	—	453
Disposals	—	(4)	(38)	—	(42)
Effect of translation to presentation currency	11	2	11	—	24
Balance at 31 December 2017	722	360	1,313	—	2,395
Net book value at 31 December 2016	4,675	611	1,003	208	6,497
Net book value at 31 December 2017	5,914	725	1,224	316	8,179

Group assets include advances issued for capital expenditures of 59 million USD (31 December 2016 – 62 million USD).

If mineral rights had been carried at the historical cost, the net book value of property, plant and equipment at 31 December 2017 would have been 2,755 million USD (31 December 2016 – 2,290 million USD).

12. Trade accounts and other receivables

	2017	2016
Trade accounts receivable	632	460
Advances issued	110	116
Other receivables	49	36
Subtotal	791	612
Less: Allowance for doubtful debts	36	21
Total	755	591

13. Inventories

	2017	2016
Coal stock	324	273
Consumable stores and materials	213	175
Less: Allowance for obsolescence	21	15
Net consumable stores and materials	192	160
Total	516	433

14. Prepaid and recoverable taxes

	2017	2016
Value-added tax recoverable	99	88
Income tax receivable	17	28
Prepaid other taxes	3	6
Total	119	122

15. Derivative financial instruments

	2017		2016	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Coal forward contracts – cash flow hedges	42	108	54	173
Cross-currency interest rate swap – cash flow hedges	—	29	—	33
Other derivatives	3	—	4	—
Total	45	137	58	206

Derivative financial instruments were valued using observable inputs, which correspond to Level 2 of the hierarchy of the fair value measurements (see note 28). Details of the effective portion of changes in fair value of cash flow hedges were as follows:

	2017		2016	
	Loss recognised in comprehensive income	Loss recycled from comprehensive income to the profit or loss	Loss recognised in comprehensive income	Gain recycled from comprehensive income to the profit or loss
Effective portion of changes in fair value of cash flow hedges	(199)	254	(24)	(62)
Deferred tax	17	(22)	11	(4)
Total	(182)	232	(13)	(66)

Coal forward contracts. The Group uses coal forwards to hedge the coal price index used in index price coal sales and purchase contracts. Details of the coal forwards designated as cash flow hedges were as follows:

	2017		2016	
	Volume ('000 tonne)	Derivative	Volume ('000 tonne)	Derivative
Derivative assets				
0 – 3 months	195	11	1,095	18
3 – 6 months	255	13	705	11
6 – 9 months	135	9	510	8
9 – 12 months	135	9	510	8
More than 12 months	—	—	516	9
Total	720	42	3,336	54
Derivative liabilities				
0 – 3 months	2,871	33	4,341	52
3 – 6 months	2,616	29	3,411	41
6 – 9 months	2,046	23	3,366	40
9 – 12 months	2,016	23	3,351	40
Total	9,549	108	14,469	173

At 31 December 2017 the average coal sales price under the coal forwards was 85 USD per ton (31 December 2016 – 61 USD per ton) and the average coal purchase price under the coal forwards was 73 USD per ton (31 December 2016 – 55 USD per ton).

Cross-currency interest rate swap. The Group uses RUB/USD cross currency interest rate swaps to manage interest and foreign currency risks associated with RUB-denominated bonds.

At 31 December 2017, the outstanding principle amount of RUB-denominated bonds amounted to 35 million USD (31 December 2016 – 33 million USD).

16. Cash and cash equivalents

		2017	2016
Current accounts	– foreign currency	74	101
	– RUB	54	43
Margin accounts	– foreign currency	10	128
Deposits	– foreign currency	93	5
	– RUB	85	47
Other cash equivalents	– RUB	7	9
Total		323	333

Margin accounts represent margin deposits in respect of open coal forward contracts.

17. Share capital and reserves

	Number of shares, in thousands	
	2017	2016
Authorised share capital		
Ordinary shares	232,060	232,060
Issued share capital		
Ordinary shares	232,060	232,060
Total	232,060	232,060

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

18. Earnings per share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year.

Basic and diluted earnings per share are the same, as there is no dilution effect.

	2017	2016
Profit for the year attributable to ordinary shareholders of the parent	627	251
Weighted average number of ordinary shares in issue (in thousands)	232,060	232,060
Basic and diluted earnings per share (in USD)	2.70	1.08

19. Borrowings

	Effective interest rate	2017	2016
Long-term borrowings			
Variable rate borrowings		3,015	2,723
USD-denominated borrowings	3M LIBOR + 1.3% to 3M LIBOR + 3.5%	2,890	2,609
EUR-denominated borrowings	6M EURIBOR + 0.6% to 6M EURIBOR + 2.25%	125	114
Fixed rate borrowings		503	442
USD-denominated borrowings	3%	192	192
RUB-denominated bonds	8.25% to 10.5%	183	173
RUB-denominated borrowings	0.05% to 5.75%	128	77
Subtotal		3,518	3,165
Less: Current portion of long-term borrowings		1,007	764
Total long-term borrowings		2,511	2,401
Short-term borrowings			
Variable rate borrowings		–	70
USD-denominated borrowings		–	70
Fixed rate borrowings		2	154
EUR-denominated borrowings		–	150
Other borrowings		2	4
Subtotal		2	224
Current portion of long-term borrowings		1,007	764
Total short-term borrowings		1,009	988

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

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

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

20. Financial instruments

The table below provides information of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

	Short-term borrowings	Long-term borrowings	Acquisition of NCI	Dividends paid to NCI	Total
Balance as at 1 January 2017	224	3,165	144	—	3,533
Cash flows	(225)	152	(184)	(16)	(273)
Foreign exchange (gain)/loss	(6)	20	—	—	14
Interest expenses	9	157	—	—	166
Bank commissions	—	24	—	—	24
Other payables	—	—	40	16	56
Balance as at 31 December 2017	2	3,518	—	—	3,520

21. Other long-term liabilities

	2017	2016
Provision for defined benefit obligation	51	51
Provision for environmental obligation	49	38
Other long-term liabilities	56	44
Total	156	133

Provision for defined benefit obligation. Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

	2017	2016
Discount rate	8%	9%
Inflation rate	4%	5%
Future increases in salaries	4%	5%

Provision for environmental obligation. The extent and cost of future site restoration programmes are inherently difficult to estimate and depend on the estimated lives of the mines, the scale of any possible disturbance and contamination as well as the timing and extent of corrective actions. The following is a summary of the key assumptions on which the discounted carrying amounts of the obligations are based:

	2017	2016
Discount rate	8%	9%
Inflation rate	4%	5%

22. Trade accounts and other payables

	2017	2016
Trade accounts payable and accruals	280	147
Advances from customers	209	201
Payables for shares of SUEK LTD (see note 1)	100	96
Accrual for vacation payments	47	42
Wages and salaries	43	38
Payables for acquisition of a non-controlling interest (see note 25)	—	144
Promissory notes payable	—	75
Other creditors	36	67
Total	715	810

23. Taxes payable

	2017	2016
Value-added tax	28	24
Income tax	13	10
Social security contributions	11	15
Other	14	10
Total	66	59

24. Taxation

	2017	2016
Current income tax expense	226	89
Deferred income tax (benefit)/expense	(5)	1
Income tax expense	221	90

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

	2017	2016
Profit before tax	878	404
Theoretical income tax expense at 20%	176	81
Impact of specific tax rates in Russian Federation	(1)	(5)
Impact of specific tax rates in Switzerland	16	6
Impact of specific tax rates in Cyprus	4	—
Tax effect of non-deductible expenses	26	8
Total income tax expense	221	90

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	Opening balance	Recognised in equity	Recognised in profit or loss	Effect of translation to presentation currency	Closing balance
2017					
Deferred tax assets	220	(10)	16	7	233
Tax losses carried forward	183	(5)	8	7	193
Environmental and other provisions	9	—	4	—	13
Employee benefit obligations	10	—	1	—	11
Prepaid expenses and accruals	6	—	3	—	9
Derivative financial liabilities	9	(5)	1	—	5
Trade accounts and other receivables	3	—	(1)	—	2
Deferred tax liabilities	(953)	(264)	(11)	(11)	(1,239)
Property, plant and equipment	(944)	(264)	(12)	(11)	(1,231)
Inventory	(7)	—	2	—	(5)
Other	(2)	—	(1)	—	(3)
Net deferred tax liabilities	(733)	(274)	5	(4)	(1,006)

	Opening balance	Recognised in equity	Recognised in profit or loss	Effect of translation to presentation currency	Closing balance
2016					
Deferred tax assets	290	(22)	(71)	23	220
Tax losses carried forward	266	(33)	(74)	24	183
Employee benefit obligations	9	—	—	1	10
Environmental and other provisions	10	—	(2)	1	9
Derivative financial liabilities	2	11	(4)	—	9
Prepaid expenses and accruals	2	—	7	(3)	6
Trade accounts and other receivables	1	—	2	—	3
Deferred tax liabilities	(857)	(110)	70	(56)	(953)
Property, plant and equipment	(841)	(110)	62	(55)	(944)
Inventory	(1)	—	(7)	1	(7)
Other	(15)	—	15	(2)	(2)
Net deferred tax liabilities	(567)	(132)	(1)	(33)	(733)

Unrecognised temporary differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends on a tax-free basis when certain conditions are met and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to 3,410 million USD (31 December 2016 – 2,677 million USD).

Management believes that sufficient taxable profits will be available, against which the unused tax losses can be utilised by the Group in the future.

For disclosure purposes certain deferred tax assets and liabilities are offset in accordance with the accounting policy.

	2017	2016
Deferred tax assets	141	128
Deferred tax liabilities	(1,147)	(861)
Net deferred tax liabilities	(1,006)	(733)

25. Related party transactions

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

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

	2017	2016
Coal sales to Siberian Generating Company ("SGC") Group	449	435
Coal sales to DEC Group, an associate of a company with the same principal ultimate beneficiary	132	100
Other coal sales	42	27
Interest income	2	2
Other revenue from EuroChem Group	2	12
Other purchases	24	27
Interest expense	3	—
Remuneration of the Board of Directors and the Management Board members	9	7

The outstanding balances with related parties are as follows:

	2017	2016
Trade accounts and other receivables from SGC Group	123	6
Other receivables	25	—
Trade accounts and other receivables from DEC Group	7	20
Payables for shares of SUEK LTD to a company with the same principal ultimate beneficiary (see note 1)	100	96
Payables for acquisition of a non-controlling interest to EuroChem Group	—	144

26. Commitments

Capital commitments. The following capital expenditures were approved:

	2017	2016
Contracted	398	353
Not yet contracted	141	110
Total	539	463

Social commitments. The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group's social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group's employees. Contributions are expensed in the year during which they are incurred.

Operating lease commitments. The Group has a number of non-cancellable lease commitments. Future minimum lease payments due under non-cancellable operating leases are as follows:

	2017				2016			
	Railcars	Land and premises	Vessels	Total	Railcars	Land and premises	Vessels	Total
Due in one year	99	16	7	122	40	15	13	68
Due from two to five years	288	30	10	328	33	25	16	74
Due thereafter	115	45	—	160	—	39	—	39
Total	502	91	17	610	73	79	29	181

Lease of railcars. The Group has long-term operating lease contracts which expire through to 2025.

Land and premises leases. The Group has long-term operating lease contracts for land and office premises. The land in the Russian Federation on which the Group's production facilities are located is largely owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2066 for land lease and to 2029 for office premises lease.

Lease of vessels. The Group has long-term operating lease contracts for 2 ice-class vessels. The operating lease agreements expire through to 2020 and 2021.

27. Contingencies

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

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

Taxation contingencies in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits which will be required to settle such liabilities.

Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

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

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

Russian Federation risk. The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated 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.

28. Fair value measurement

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

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

Financial instruments carried at amortised cost. At 31 December 2017, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values.

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

Mineral rights carried at fair value. The fair value of mineral rights was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values (see note 4).

29. Financial risk management

In the normal course of its operations, the Group is exposed to market (including foreign currency and interest rate), credit and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out through regular meetings of a risk management committee of operational management and by the central treasury department. The Board of Directors approves principles for overall risk management. In addition, operational management have developed policies covering specific areas, such as foreign currency risk, interest rate risk and the use of derivative and non-derivative financial instruments.

29.1. Market risk

Market risk is the risk that changes in market prices, such as coal prices, foreign exchange rates and interest rates will negatively impact the Group's results 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 on risk. Market risk management includes the analysis of foreign currency and interest rate risks.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUB. Accordingly, operating profits may be adversely impacted by the appreciation of the RUB against the USD. The risk of negative fluctuations in the USD/RUB exchange rate for future revenue streams is naturally hedged by the USD borrowings.

The Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

	2017				2016			
	RUB	USD	EUR	Total	RUB	USD	EUR	Total
Balances with third parties	12	(99)	(60)	(147)	(65)	(127)	(318)	(510)
Cash and cash equivalents	95	32	3	130	58	—	5	63
Prepaid and recoverable taxes	78	—	—	78	69	—	—	69
Trade accounts receivable	104	—	1	105	44	3	(4)	43
Other receivables	8	—	—	8	3	—	—	3
Borrowings	(35)	—	—	(35)	(33)	—	(271)	(304)
Payables for shares of SUEK LTD	—	(100)	—	(100)	—	(96)	—	(96)
Trade accounts payable and accruals	(69)	(2)	(55)	(126)	(39)	(1)	(28)	(68)
Other long-term liabilities	(103)	—	(7)	(110)	(82)	—	(10)	(92)
Derivative financial liabilities	—	(29)	—	(29)	—	(33)	—	(33)
Accrual for vacation payments	(20)	—	—	(20)	(29)	—	—	(29)
Taxes payable	(22)	—	—	(22)	(22)	—	—	(22)
Wages and salaries	(20)	—	—	(20)	(19)	—	—	(19)
Other creditors	(4)	—	(2)	(6)	(15)	—	(10)	(25)
Intra-group balances	(467)	(338)	(98)	(903)	(233)	(688)	—	(921)
Intra-group receivables	251	33	6	290	197	28	1	226
Intra-group borrowings	(413)	(371)	(102)	(886)	(181)	(628)	(1)	(810)
Intra-group payables	(305)	—	(2)	(307)	(249)	(88)	—	(337)
Total net liabilities	(455)	(437)	(158)	(1,050)	(298)	(815)	(318)	(1,431)

A 10% devaluation of functional currencies against foreign currencies at the reporting date would have the following effect on the equity and profit or loss for the year:

	2017			Total
	RUB	USD	Other	
Decrease in equity	36	32	12	80
Decrease in profit or loss for the year	36	3	12	51

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The total net unhedged liability which exposes the Group to interest rate risk amounts to 3,437 million USD (31 December 2016 – 3,421 million USD).

The Group's interest rate risk arises primarily from long-term borrowings. The Group's borrowings at variable interest rates are primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk. The Group monitors the risk and, if necessary, manages its exposure by entering into variable-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from variable interest rates to fixed interest rates.

An increase or decrease in the floating interest rate by 1%, provided that the amount of outstanding balance remained constant for the whole year, would have decreased or increased profit for the year by 30 million USD (2016 – 28 million USD).

29.2. Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties. Trade receivables comprise international companies and large Russian companies, and credit is only extended to these customers after rigid credit approval procedures. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

At 31 December 2017, 5% of total trade receivables were due from the Group's largest customer and 42% of the total trade receivables were due from the Group's next 19 largest customers (31 December 2016 – 7% and 56%, respectively).

The table below analyses the Group's trade receivables into relevant groupings based on the year of them being considered past due.

	2017		2016	
	Gross	Allowance for doubtful debts	Gross	Allowance for doubtful debts
Not past due	596	—	440	—
Past due for less than 12 months	9	4	16	12
Past due for more than one year	27	27	4	4
Total	632	31	460	16

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2017	2016
Opening balance	16	8
Additional doubtful debts	22	14
Bad debt written-off (impairment loss recognised)	—	(2)
Bad debt recovered	(7)	(6)
Effect of translation to presentation currency	—	2
Closing balance	31	16

29.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

Recently global and Russian capital markets have experienced significant volatility, including a lack of available sources of financing and significant fluctuation of the Russian Rouble against the USD and the Euro. Despite stabilisation measures undertaken by various governments, markets remain volatile.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group expects that cash generated from operations will be the major source of the Group's liquidity in 2018 and will be sufficient to cover the capital expenditures programme of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to refinance existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by ensuring the availability of credit line facilities. The unused portion of these lines at 31 December 2017 totalled 2,729 million USD (31 December 2016 – 1,502 million USD).

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the contractual undiscounted cash flows to maturity, including interest payments.

	Carrying amount	Contractual cash flows	Due in the first year	Due in the second year	Due thereafter
Balance at 31 December 2017					
Long-term borrowings	2,511	2,831	121	961	1,749
Short-term borrowings	1,009	1,009	1,009	—	—
Net-settled derivative liabilities	137	137	137	—	—
Trade accounts payable and accruals	280	280	280	—	—
Payables for shares of SUEK LTD	100	100	100	—	—
Other creditors	36	36	36	—	—
Total	4,073	4,393	1,683	961	1,749
Balance at 31 December 2016					
Long-term borrowings	2,401	2,690	96	1,066	1,528
Short-term borrowings	988	988	988	—	—
Net-settled derivative liabilities	206	206	173	33	—
Payables for acquisition of a non-controlling interest	144	144	144	—	—
Trade accounts payable and accruals	147	147	147	—	—
Payables for shares of SUEK LTD	96	96	96	—	—
Promissory notes payable	75	75	75	—	—
Other creditors	67	67	67	—	—
Total	4,124	4,413	1,786	1,099	1,528

29.4. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders and benefits for other stakeholders.

The Group defines capital as shareholders' equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. This strategy remains unchanged from prior years.

30. Investments in significant subsidiaries

Subsidiaries by country of incorporation	Principal activity	2017	2016
Russian Federation			
Murmansk			
PJSC "Murmanskiy Morskoi Torgovyi Port"	Port facilities	84.9%	75.5%
Kemerovo			
JSC "SUEK-Kuzbass"	Hard coal extraction	100%	100%
Krasnoyarsk			
JSC "SUEK-Krasnoyarsk"	Brown coal extraction	100%	100%
JSC "Razrez Berezovskiy"	Brown coal extraction	100%	100%
JSC "Razrez Nazarovskiy"	Brown coal extraction	100%	100%
Khakasia			
LLC "SUEK-Khakasia"	Hard coal extraction	100%	100%
LLC "Vostochno-Beyskiy razrez"	Hard coal extraction	50%	50%
JSC "Razrez Izykhskiy"	Hard coal extraction	100%	100%
Buryatia			
JSC "Razrez Tugnuiskiy"	Hard coal extraction	100%	100%
Zabaikalye			
JSC "Razrez Kharanorskiy"	Brown coal extraction	100%	100%
LLC "Chitaugol"	Brown coal extraction	100%	100%
LLC "Arcticheskije razrabotki"	Coking coal extraction	100%	100%
Khabarovsk			
JSC "Urgalugol"	Hard coal extraction	100%	100%
JSC "Daltransugol"	Port facilities	100%	100%
Primorye			
JSC "Primorskugol"	Brown coal extraction	100%	100%
JSC "ShU Vostochnoe"	Hard coal extraction	100%	100%
LLC "Stividoronaya kompaniya "Maly port"	Port facilities	49.9%	49.9%
Switzerland			
SUEK AG	Export sales of coal	100%	100%
Republic of Cyprus			
SUEK LTD	Debt holding company	100%	100%

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

Non-controlling interests. Information of the Group's subsidiaries that have significant non-controlling interests is as follows:

	2017		2016	
	LLC "Vostochno- Beyskiy razrez"	MMTP	LLC "Vostochno- Beyskiy razrez"	MMTP
Non-current assets	295	141	192	140
Current assets	43	172	46	103
Non-current liabilities	(71)	(35)	(50)	(32)
Current liabilities	(9)	(7)	(13)	(7)
Net assets	258	271	175	204
Accumulated non-controlling interests	129	41	88	50
Revenue	129	116	100	105
Net profit for the year	17	61	13	79
Profit allocated to non-controlling interests	8	12	6	48
Revaluation of mineral rights	48	—	(44)	—
Cash flows from operating activities	26	33	18	40
Cash flows used in investment activities	(5)	(13)	(4)	(2)
Cash flows used in financing activities	(21)	—	(14)	—
Dividends to non-controlling interests	10	—	7	—

Acquisition of a subsidiary. In October 2017, the Group acquired from a related party 100% of a company, which provides operating lease of railcars, for 120 million USD. Since the acquisition of the company represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2016, at the beginning of the earliest comparative period. The transaction accounted for using predecessor accounting at the carrying amount of the assets and liabilities.

The carrying amount of assets and liabilities of the subsidiary is presented below:

	2017	2016
Property, plant and equipment	128	133
Cash and cash equivalents	1	3
Prepaid and recoverable taxes	(3)	—
Deferred tax liabilities	(4)	(3)
Trade accounts and other payables	(1)	(1)
Borrowings	(70)	(81)
Net assets acquired	51	51
Company's share in the net assets	51	51
Common control reserve recorded	69	—
Total cost of investment	120	—