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PJSC Raspadskaya

Consolidated financial statements

for the year ended 31 December 2017

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PJSC Raspadskaya

Consolidated financial statements

for the year ended 31 December 2017

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Independent auditor's report

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To the Sharebholders and Board of Directors of
PJSC Raspadskaya

Opinion

We have audited the consolidated financial statements of PJSC Raspadskaya and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2017 in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Property, plant and equipment impairment	
Annual impairment testing was one of the most significant matters for our audit because the recoverable amount assessment process is complex and involves estimates. In the impairment testing of property, plant and equipment the Group used various assumptions and critical management judgment including estimates of future sales, gross margins, operating costs, terminal value growth rates, capital expenditures and the discount rate and the assumptions inherent in those estimates. The information about property, plant and equipment impairment testing is disclosed in Note 7 to the consolidated financial statements.	Our procedures in respect of management's assessment of the impairment of property, plant and equipment included: ► Assessment of management's assumptions used in their impairment model with reference to historical data and, where applicable, external benchmarks. ► Evaluation of the impairment model with the assistance of our valuation specialists and analysis of management's sensitivity calculations. ► Assessment of the historical accuracy of management's budgets and forecasts, and sought evidence for any anticipated improvements in major assumptions such as production volumes or cost reductions and comparison of previous forecasts with actual data. ► Assessment of management's analysis of idle property, plant and equipment objects and property, plant and equipment objects that is planned to be taken out from operation in respect of specific impairment. ► Assessment of management's analysis of impaired property, plant and equipment objects that is planned to be used in respect of reversal of specific impairment. ► Consideration of the related disclosures in the Group's consolidated financial statements.

Other information included in Management's discussion and analysis of financial condition and results of operations

Other information consists of the information included in Management's discussion and analysis of financial condition and results of operations, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the Audit Committee, 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 auditor's 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 partner in charge of the audit resulting in this independent auditor's report is A.B. Khorovitch.

A.B. KHOROVITCH
Partner
Ernst & Young LLC

21 March 2018

Details of the audited entity

Name: PJSC Raspadskaya
Record made in the State Register of Legal Entities on 6 November 2002, State Registration Number 1024201389772.
Address: Russia 652870, Mezhdurechensk, Mira, 106.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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PJSC Raspadskaya

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017	2016
		US$million	*US$million*
Revenue			
Sales of goods		**821**	466
Rendering of services		**47**	36
	4	**868**	502
Cost of sales	5	**(409)**	(292)
Gross profit		**459**	210
Selling and distribution costs	5	**(24)**	(17)
General and administrative expenses	5	**(23)**	(20)
Social expenses		**(1)**	(1)
Loss on disposal of property, plant and equipment		**(1)**	(1)
Impairment of assets		**7**	34
Foreign exchange gain		**13**	77
Other operating income		**–**	1
Other operating expenses		**(8)**	(12)
Operating profit		**422**	271
Interest income		**1**	–
Interest expense		**(23)**	(38)
Profit before income tax		**400**	233
Income tax expense	6	**(81)**	(48)
Profit for the year		**319**	185
Other comprehensive income			
Effect of translation to presentation currency		**21**	36
Actuarial loss on employee benefits obligation	16	**(1)**	–
Other comprehensive income for the year, net of tax		**20**	36
Total comprehensive income for the year, net of tax		**339**	221
Profit for the year attributable to:			
Equity holders of the parent		**319**	185
Non-controlling interests		**–**	–
		319	185
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**338**	220
Non-controlling interests		**1**	1
		339	221
Earnings per share:			
basic and diluted, for the profit for the year attributable to equity holders of the parent, US dollars (26.40 rubles and 17.25 rubles for the years ended 31 December 2017 and 2016, respectively)	14	**0.45**	0.26

CFO, Skrobotov D.V.

21 March 2018

The accompanying notes form an integral part of these consolidated financial statements.

Translation of the original Russian version

PJSC Raspadskaya

Consolidated statement of financial position

as at 31 December 2017

	Notes	2017	2016
		US$million	*US$million*
Assets			
Non-current assets			
Property, plant and equipment	7	**692**	633
Deferred income tax asset	6	**54**	93
Other non-current assets	8	**5**	3
		751	729
Current assets			
Inventories	10	**49**	33
Trade and other receivables	11	**28**	38
Prepayments	11	**8**	6
Receivables from related parties	12	**399**	430
Loans receivable from related parties	12	**–**	72
Income tax receivable		**3**	4
Other taxes recoverable	13	**59**	34
Cash and cash equivalents	9	**45**	35
		591	652
Total assets		**1,342**	1,381
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	**–**	–
Additional paid-in capital		**388**	388
Reserve capital	14	**–**	–
Accumulated profits		**819**	501
Translation difference		**(549)**	(569)
		658	320
Non-controlling interests		**4**	3
		662	323
Non-current liabilities			
Long-term loans from related parties	12	**–**	29
Deferred income tax liabilities	6	**50**	58
Post-employment benefits liabilities	16	**17**	16
Site restoration provision	17	**13**	7
		80	110
Current liabilities			
Trade and other payables	18	**69**	55
Advances from customers		**–**	2
Short-term loans and current portion of long-term loans	15	**–**	405
Short-term loans and current portion of long-term loans from related parties	12	**38**	–
Payables to related parties	12	**444**	448
Income tax payable		**5**	2
Other taxes payable	19	**37**	33
Other provisions	17	**7**	3
		600	948
Total equity and liabilities		**1,342**	1,381

CFO, Skrobotov D.V.

21 March 2018

The accompanying notes form an integral part of these consolidated financial statements.

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PJSC Raspadskaya

Consolidated cash flow statement

for the year ended 31 December 2017

	Notes	2017	2016
		US$million	*US$million*
Operating activities			
Profit for the period		**319**	185
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortization	5	**51**	42
Deferred income tax expense	6	**32**	40
Loss on disposal of property, plant and equipment		**1**	1
Impairment of assets		**(7)**	(34)
Foreign exchange gain		**(13)**	(77)
Interest income		**(1)**	–
Interest expense		**23**	38
Change in bad debt allowance		**1**	–
Changes in provisions and other long-term assets and liabilities		**(3)**	2
		403	197
Changes in working capital			
Inventories		**(14)**	(7)
Trade and other receivables		**10**	2
Prepayments		**(2)**	(1)
Receivables from/payables to related parties		**18**	(47)
Taxes recoverable		**(21)**	(12)
Trade and other payables		**11**	23
Advances from customers		**(1)**	1
Taxes payable		**6**	15
Net cash flows from operating activities		**410**	171
Investing activities			
Purchases of property, plant and equipment		**(61)**	(38)
Proceeds from disposal of property, plant and equipment		**3**	3
Loans issued to related parties	12	**(10)**	(65)
Loans repayment from related parties	12	**85**	–
Other investing activities, net		**1**	2
Net cash flows from / (used in) investing activities		**18**	(98)
Financing activities			
Proceeds from loans from related parties	12	**339**	60
Repayment of loans from related parties, including interest	12	**(336)**	(118)
Repayment of loans, including interest		**(416)**	(31)
Net cash flows used in financing activities		**(413)**	(89)
Effect of foreign exchange rate changes on cash and cash equivalents		**(5)**	3
Net increase/(decrease) in cash and cash equivalents		**10**	(13)
Cash and cash equivalents at the beginning of the year		**35**	48
Cash and cash equivalents at the end of the year	9	**45**	35
Supplementary cash flow information			
Cash flows during the year			
Interest paid		**25**	35
Interest received		**1**	–
Income tax paid		**46**	9

CFO, Skrobotov D.V.

21 March 2018

The accompanying notes form an integral part of these consolidated financial statements.

PJSC Raspadskaya

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Attributable to equity holders of the parent							
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Translation difference**	**Parent share-holders' equity**	**Non-controlling interests**	**Total**
	US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
At 31 December 2015	–	388	–	316	(604)	100	2	102
Profit for the year	–	–	–	185	–	185	–	185
Other comprehensive income	–	–	–	–	35	35	1	36
Total comprehensive income	–	–	–	185	35	220	1	221
At 31 December 2016	–	388	–	501	(569)	320	3	323
Profit for the year	**–**	**–**	**–**	**319**	**–**	**319**	**–**	**319**
Other comprehensive income/(loss)	**–**	**–**	**–**	**(1)**	**20**	**19**	**1**	**20**
Total comprehensive income	**–**	**–**	**–**	**318**	**20**	**338**	**1**	**339**
At 31 December 2017	**–**	**388**	**–**	**819**	**(549)**	**658**	**4**	**662**

CFO, Skrobotov D.V.

21 March 2018

The accompanying notes form an integral part of these consolidated financial statements.

1. Corporate information

The consolidated financial statements of PJSC Raspadskaya (the "Company") for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 21 March 2018.

The Company's controlling shareholder Evraz Group S.A. (Luxembourg), which owns approximately 81.95% of the Company's shares.

The Company's registered office is at 106, Mira street, Mezhdurechensk, Kemerovsky region, 652870, Russia. Lanebrook Limited (Cyprus) is the ultimate controlling party of the Group.

The Company and its subsidiaries (the "Group") derive 80% and 78% of their revenues from sales of coking coal in 2017 and 2016, respectively. Other revenue sources include sales of other goods, transport-handling and other services. The Company's shares are traded on the Russian stock exchange MOEX.

In the years ended 31 December 2017 and 2016, 75% and 60%, respectively, of the Group's revenues were generated in transactions with related parties (Note 12).

The major subsidiaries included in the consolidated financial statements of the Company at 31 December were as follows:

	Ownership interest		
	2017	**2016**	**Business activity**
OAO MUK-96*	–	100%	Coal mining
AO Razrez Raspadskiy	**100%**	100%	Coal mining
AO Raspadskaya-Koksovaya	**100%**	100%	Coal mining
AO Raspadskaya Preparation Plant	**100%**	100%	Coal processing
OOO Raspadskaya Coal Company	**100%**	100%	Managing and coal trading

* On 1 August 2017 OAO MUK-96 was merged with AO Razrez Raspadskiy.

The Group operates as a vertically integrated business and reports its activities as a single business segment. All of the Group's subsidiaries and assets are located and incorporated in Russia.

2. Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits obligations measured at present value.

These consolidated financial statements are presented in US dollars (US$) and all values are rounded to the nearest million (US$million) except when otherwise stated.

2. Significant accounting policies (continued)

Going concern

These consolidated financial statements have been prepared on a going concern basis.

Based on the currently available facts and circumstances the directors and management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Changes in accounting policies

New/revised standards and interpretations adopted in 2017

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2017.

Amendments to IAS 7 – Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group disclosed additional information in Note 15 in these consolidated financial statements for the year ended 31 December 2016 and 2017.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The application of these amendments has no effect on the Group’s financial position and performance as the Group followed the same principles in prior periods

The amendments described above had no significant impact on the financial position and performance of the Group or the disclosures in the consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

Standards issued but not yet effective

Standards not yet effective for the financial statements for the year ended 31 December 2017	Effective for annual periods beginning on or after
► Amendments to IAS 40 – *Transfers of Investment Property*	1 January 2018
► Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
► Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018
► Annual improvements to IFRSs 2014-2016 cycle	1 January 2018
► IFRS 9 *Financial Instruments*	1 January 2018
► IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
► IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
► IFRS 16 *Leases*	1 January 2019
► Amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*	1 January 2019
► Amendments to IAS 19 – *Plan Amendment, Curtailment or Settlement*	1 January 2019
► Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*	1 January 2019
► IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
► Annual improvements to IFRSs 2015-2017 cycle	1 January 2019
► IFRS 17 *Insurance Contracts*	1 January 2021

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

The Group plans to apply IFRS 9 and IFRS 15 starting from the dates stated by International Accounting Standards Board. At present the Group is in the process of analysis of the possible impact of the application of these standards on its consolidated financial statements, but the preliminary results show that the impact will not be significant.

IFRS 9 Financial Instruments

Starting from 2018, the Group will apply IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will adopt the new standard on the required effective date and due to the exemption in IFRS 9 will not restate comparative periods in the year of initial application. As a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 January 2018, with the difference recognised in the opening balance of accumulated profits.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

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 includes three principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

Based on the assessment, the Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

Loans and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on the expected credit losses rather than only incurred credit losses under IAS 39. The expected credit losses represent measures of an asset's credit risk. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The new impairment model applies to the Group's financial assets, including, but not limited to, trade and other receivables, loans receivable, restricted deposits, cash and cash equivalents.

Loss allowances are measured on either of the following bases:

- 12-month basis – these are expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- Lifetime basis – these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

Based on the assessments undertaken to the date, the Group expects no change in the loss allowance for trade debtors and other financial assets held at amortised cost.

The Group's cash and cash equivalents have low credit risk based on the external credit ratings of banks and financial institutions. Therefore, the Group determined that no additional allowances are required at 31 December 2017 in connection with the adoption of the new impairment model under IFRS 9.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The Group plans to adopt the new standard on the required effective date (from 1 January 2018) using the modified retrospective method, i.e. with the cumulative effect of applying this standard recognised at the date of initial recognition. During 2017, the Group performed a preliminary assessment of the impacts of IFRS 15. In preparing to adopt IFRS 15, the Group is considering the following:

(a) Sale of goods and services

For contracts with customers in which the sale of goods produced by the Group is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue to be recognised at the point in time when control of the asset is transferred to the customer, generally on dispatch or shipping of the goods.

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of the estimated returns and allowances, trade discounts and volume rebates. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue, i.e. variable consideration should be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group expects that application of the constraint will not result in significant effects as the Group already applies similar principles.

(b) Advances received from customers

The Group receives only short-term advances from its customers. No interest is accrued on the advances received under the Group's accounting policy. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts.

However, the Group decided to use the practical expedient provided in IFRS 15, which allows not to adjust the promised amount of consideration for the effects of a significant financing component in the contracts where the Group expects, at contract inception, that the period between the Group's transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant.

(c) Principal versus agent considerations

The Group enters into contracts with its customers, under which the Group provides transportation and handling services using third party providers (i.e. the Group selects suitable firms and manages the shipment and delivery). These services are provided to the customers before, or after, they obtain control over the goods. The cost of services is included in the contract price. According to the current accounting policies, these services are recognised at the moment when the right of ownership over the goods is passed to the customers and presented as revenue from the sale of goods with the corresponding expenses included in selling costs in the statement of comprehensive income.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

Under IFRS 15, transportation and handling services rendered by the Group before control over the goods is transferred to the customers do not represent a separate performance obligation.

However, the Group has preliminarily concluded that when it provides such services after obtaining control over the goods by the customers, it acts as an agent rather than a principal in these contracts. As a result, the Group concluded that it transfers control over its services at a point in time. Consequently, the Group will need to allocate the transaction price to respective performance obligations and recognise revenue from these services and the associated costs on a net basis.

The Group is in the process of collecting information relating to the possible adjustments to the amounts of revenue reported according to the current accounting standards. The preliminary results of this assessment are the reduction of revenue with the same decrease in selling expense for the amount of transportation costs under contracts, in which the Group acted as an agent (at least US$7 in 2017).

(d) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgements made when assessing the contracts if the Group conclude that it acts as an agent instead of a principal.

In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

(e) Other adjustments

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, the effect of these changes is not expected to be material for the Group.

Foreign currency transactions

The presentation currency of these consolidated financial statements is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group is the Russian ruble (the “ruble”). As at the reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to equity as a separate component.

2. Significant accounting policies (continued)

Foreign currency transactions (continued)

The following exchange rates were used in the consolidated financial statements:

	2017		2016	
	31 December	Average	31 December	Average
USD/RUB	57.6002	58.3529	60.6569	67.0349
EUR/RUB	68.8668	65.9014	63.8111	74.2336

Transactions in foreign currencies in the Group are initially recorded in the functional currency at the rate ruling at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into rubles at the exchange rate ruling at the end of the reporting period. All resulting differences are taken to the statement of comprehensive income.

Basis of consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date when control ceases.

All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the parent's shareholders' equity.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Acquisition of subsidiaries

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the consolidated financial statements.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

Financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any.

The Group's share of its associates' profits or losses is recognised in the statement of comprehensive income and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has legal or constructive obligations to make payments to, or on behalf of, the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interests in joint ventures

The Group's interest in its joint ventures is accounted for under the equity method of accounting whereby an interest in jointly ventures is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of joint ventures. The statement of comprehensive income reflects the Group's share of the results of operations of joint ventures.

Property, plant and equipment

The Group's property, plant and equipment, except for the items acquired prior to 1 January 2003, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. The items of property, plant and equipment acquired prior to 1 January 2003 were accounted for at deemed cost being their fair value at 1 January 2003 less subsequent accumulated depreciation and any impairment in value.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts, roads, infrastructure, buildings, machinery and equipment.

At each end of the reporting period management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as impairment loss in the statement of comprehensive income. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year end.

The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	**Weighted average remaining useful life (years)**
Buildings and constructions	15-60	24
Machinery and equipment	4-45	10
Transport and motor vehicles	7-20	5
Other assets	3-15	4

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves. The depletion calculation takes into account future development costs for reserves which are in the production phase.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Exploration and evaluation expenditures

Exploration and evaluation expenditures represent costs incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The expenditures include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. These costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Group commences recognition of expenditures related to the development of mineral resources as assets. These assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred for an acquisition of a subsidiary or an associte and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognised in the statement of comprehensive income.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of an associate is included in the carrying amount of the investments in associates.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or the group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the cash-generating unit retained.

Financial assets

The Group classified its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in the statement of comprehensive income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

2. Significant accounting policies (continued)

Financial assets (continued)

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the statement of comprehensive income in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of comprehensive income. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other generally accepted valuation techniques.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Accounts receivable

Accounts receivable, which generally are short-term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

2. Significant accounting policies (continued)

Value added tax

Russian tax legislation permits settlement of sales and purchases value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performance of work or rendering of services, as well as upon receipt of prepayments from customers. VAT on purchases, even if related accounts payable have not been settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at fair value, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings.

Borrowing costs relating to qualifying assets are capitalised.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognized in statement of comprehensive income on the purchase, sale, issue or cancellation of the treasury shares.

Dividends

Dividends are recognized as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorized for issue.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

2. Significant accounting policies (continued)

Provisions (continued)

If the effect of the time value of money 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Site restoration provisions

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Provisions for site restoration costs are capitalised within property, plant and equipment.

Employee benefits

Social and pension contributions

Defined contributions are made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Defined benefit plans

The Group companies provide pensions and other benefits to their employees (Note 16). The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

The Group involves independent qualified actuaries in the measurement of employee benefit obligations.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. It is recorded within interest expense in the statement of comprehensive income.

The Group recognises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements in the statement of comprehensive income within ‘cost of sales’, ‘general and administrative expenses’ and ‘selling and distribution expenses’.

2. Significant accounting policies (continued)

Employee benefits (continued)

Other costs

The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of services

The Group's revenues from rendering of services include transportation and other services. Revenue is recognised when services are rendered, which usually occurs at a point in time.

Interest

Interest is recognized using the effective interest method.

Dividends

Revenue is recognized when the Group's right to receive the payment is established.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognised outside profit or loss is recognised in other comprehensive income or equity and not in the profit or loss.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2. Significant accounting policies (continued)

Deferred income tax (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, tax legislation and tax planning strategies.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant accounting judgments and estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets. In the years ended 31 December 2017 and 2016, the Group recognised a net impairment reversal/(loss) of US$7 million and US$34 million, respectively (Note 7).

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate that impairment exists.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment.

3. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

The useful lives of items of property, plant and equipment can be impacted to a significant degree by changes in expectations of long-term prices (which are subject to significant fluctuations even within a one year timeframe), the dollar-denominated value of the cost of production of each respective facility (which will move with the fluctuations in the USD/RUB exchange rate, because a significant portion of the Group's costs are incurred in the Russian rubles) and the resulting profitability of the specific facilities. These expectations may affect the planned timing and the level of repairs as well as the planned timing of decommissioning or replacement of the respective items of property, plant and equipment, thus affecting their useful lives. Significant changes in these variables may lead to a reassessment of useful lives of property, plant and equipment.

Mineral reserves

Mineral reserves and the associated mine plans are a material factor in the Group's computation of a depletion charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with the JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

The relative degree of uncertainty can be conveyed by placing reserves into one of the principal classifications, either proved and probable reserves or measured and indicated resources. Proved and probable reserves are more certain to be recovered than measured and indicated resources. Estimates of proved and probable reserves are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, engineering and production data; availability of new data; or changes in underlying assumptions. Proved and probable reserves are used to calculate the unit of production rates for depletion. The Group has included in proved and probable reserves those quantities that are expected to be extracted assuming that certain licenses will be renewed in the future. An increase in the Group's license periods and increase in reported proved and probable reserves would generally lead to lower depletion charge and could materially affect earnings. A reduction in proved and probable reserves will increase depletion charge, reduce income and could also result in an immediate impairment of mining assets. Given the relatively small number of producing mines and open pit operations, it is possible that any changes in reserve estimates, year on year, could significantly affect prospective charges for depletion.

In 2017, the Group updated its mining plans relating mostly to the extraction of coking coal reserves. Consequently, the depletion charge in 2017 is lower by US$1 million compared to the amount that would have been charged in accordance with the previous mining plans.

Post-employment benefits

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current 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.). More details on post-employment benefits are provided in Note 16.

3. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details on current taxes are provided in Note 20.

4. Revenue

Distribution of revenue by region

	2017		2016	
	Amount	Portion	Amount	Portion
	US$million		*US$million*	
Russia	**487**	**56%**	312	62%
Asia-Pacific	**273**	**31%**	163	32%
Europe	**108**	**13%**	27	6%
	868	**100%**	502	100%

Distribution of revenue by customer

	2017		2016	
	Amount	Portion	Amount	Portion
	US$million		*US$million*	
Evraz	**653**	**75%**	292	58%
MMK	**125**	**14%**	91	18%
Uralskaya stal	**18**	**2%**	49	10%
Other	**72**	**9%**	70	14%
	868	**100%**	502	100%

5. Expenses

Cost of sales, selling and distribution costs, general and administrative expenses include the following for the year ended 31 December:

	2017	2016
	US$million	*US$million*
Cost of inventories recognized as expense	**185**	115
Staff cost, including payroll taxes	**97**	91
Depreciation, depletion and amortization	**51**	42

6. Income tax

Major components of income tax expense

	2017	2016
	US$million	*US$million*
Current income tax		
Current income tax charge	**(49)**	(11)
Adjustments in respect of income tax of prior years	**–**	3
Deferred income tax		
Relating to origination and reversal of temporary differences	**(32)**	(40)
Income tax expense	**(81)**	(48)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation.

Reconciliation between the income tax expenses applicable to the profit before income tax at the statutory tax rate to the income tax expense at the Group's effective income tax rate is set out in the following table:

	2017	2016
	US$million	*US$million*
Tax at the Russian statutory income tax rate of 20%	**(80)**	(47)
Adjustments in respect of income tax of prior years	**–**	3
Deferred income tax expense arising on the adjustment to current income tax of prior periods and the change in tax base of underlying assets	**–**	(3)
Effect of non-deductible expenses and other non-temporary differences	**(1)**	(1)
Income tax expense	**(81)**	(48)

Movement in deferred income tax assets and liabilities

	At 31 December 2017	Change recognized as income tax expense	Translation difference	At 31 December 2016
	US$million	*US$million*	*US$million*	*US$million*
Deferred income tax liabilities				
Property, plant and equipment	**70**	**3**	**4**	63
Other	**3**	**1**	**–**	2
	73	**4**	**4**	65
Deferred income tax assets				
Accrued liabilities	**4**	**2**	**–**	2
Loss carry forward	**72**	**(30)**	**5**	97
Other	**1**	**–**	**–**	1
	77	**(28)**	**5**	100
Total deferred income tax asset/(liability)	**4**	**(32)**	**1**	35
Represented by the following:				
Net deferred income tax asset	**54**	**(43)**	**4**	93
Net deferred income tax liability	**50**	**(11)**	**3**	58

6. Income tax (continued)

Movement in deferred income tax assets and liabilities (continued)

	At 31 December 2016	Change recognized as income tax expense	Translation difference	At 31 December 2015
	US$million	*US$million*	*US$million*	*US$million*
Deferred income tax liabilities				
Property, plant and equipment	63	10	10	43
Other	2	(1)	–	3
	65	9	10	46
Deferred income tax assets				
Accrued liabilities	2	–	–	2
Loss carry forward	97	(30)	19	108
Other	1	(1)	–	2
	100	(31)	19	112
Total deferred income tax asset/(liability)	35	(40)	9	66
Represented by the following:				
Net deferred income tax asset	93	(28)	18	103
Net deferred income tax liability	58	12	9	37

The current tax rate for dividend income in Russia ranges from 0% to 15%, depending on certain conditions. No deferred income tax on distribution of earnings has been provided as the Group does not plan to distribute earnings. In 2016 changes to tax code were enacted that removed 10-years limit for tax loss carryforwards. Now accumulated tax losses could be carried forward indefinitely and used to reduce up to 50% of income tax base in future years.

7. Property, plant and equipment

	2017	2016
At 31 December	*US$million*	*US$million*
Cost		
Mining assets	**682**	638
Buildings and constructions	**85**	80
Machinery and equipment	**331**	296
Transport and motor vehicles	**56**	45
Other assets	**4**	4
Assets under construction	**64**	48
	1,222	1,111
Accumulated depreciation, depletion and impairment losses:		
Mining assets	**(225)**	(209)
Buildings and constructions	**(30)**	(26)
Machinery and equipment	**(230)**	(204)
Transport and motor vehicles	**(40)**	(33)
Other assets	**(3)**	(3)
Assets under construction	**(2)**	(3)
	(530)	(478)
	692	633

7. Property, plant and equipment (continued)

Movement in property, plant and equipment

	Mining assets	Buildings and construc-tions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
	US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
At 31 December 2016, cost, net of accumulated depreciation and depletion	429	54	92	12	1	45	633
Additions	**–**	**–**	**–**	**–**	**–**	**63**	**63**
Assets put into operation	**6**	**–**	**32**	**12**	**–**	**(50)**	**–**
Disposals	**–**	**–**	**(2)**	**–**	**–**	**–**	**(2)**
Depreciation and depletion charge	**(14)**	**(3)**	**(26)**	**(8)**	**–**	**–**	**(51)**
Impairment losses recognised	**(2)**	**–**	**–**	**–**	**–**	**–**	**(2)**
Impairment losses reversed	**8**	**1**	**–**	**–**	**–**	**–**	**9**
Change in site restoration provision	**7**	**–**	**–**	**–**	**–**	**–**	**7**
Translation difference	**23**	**3**	**5**	**–**	**–**	**4**	**35**
At 31 December 2017, cost, net of accumulated depreciation and depletion	**457**	**55**	**101**	**16**	**1**	**62**	**692**

	Mining assets	Buildings and construc-tions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
	US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
At 31 December 2015, cost, net of accumulated depreciation and depletion	331	45	81	10	3	29	499
Additions	–	–	–	–	–	40	40
Assets put into operation	6	2	17	6	–	(31)	–
Disposals	(1)	(1)	(2)	–	–	–	(4)
Reclassification	(1)	1	1	(1)	(2)	2	–
Depreciation and depletion charge	(11)	(3)	(21)	(5)	–	–	(40)
Impairment losses recognised	(23)	–	(1)	–	–	(2)	(26)
Impairment losses reversed	60	–	–	–	–	–	60
Other movements	–	–	1	–	–	–	1
Change in site restoration provision	1	–	–	–	–	–	1
Translation difference	67	10	16	2	–	7	102
At 31 December 2016, cost, net of accumulated depreciation and depletion	429	54	92	12	1	45	633

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$5 million as at 31 December 2017 and 2016, respectively.

For the purpose of the impairment testing as of 31 December 2017 the Group assessed the recoverable amount of each cash-generating unit where indicators of impairment were identified.

The recoverable amounts have been determined based on calculation of value-in-use. Valuation technique used cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash-generating units. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the results of the respective business plans using a zero real growth rate.

7. Property, plant and equipment (continued)

Movement in property, plant and equipment (continued)

The Group used the following assumptions:

	Period of forecast, years	Pre-tax discount rate, % used in 2016	Pre-tax discount rate, % used in 2017	Commodity	Average price of commodity per tonne in 2018
All CGUs of the Group	18	12.36-14.26	12.85-14.12	coal	$57.4

The Group did not recognize any impairment loss or gain from reversal of impairment as a result of the impairment testing at the level of cash-generating units.

In addition, the Group impaired certain functionally obsolete items of property, plant and equipment with no plans for further use belonging to Raspadskaya mine in the amount of US$2 million and recognised gain from reversal of impairment in the amount of US$9 million for some objects that according to new plans will be used at Raspadskaya mine and at Koksovaya mine.

8. Other non-current assets

	2017	2016
	US$million	*US$million*
At 31 December		
Emergency inventories	**3**	2
Loans to employees	**1**	1
Other	**1**	–
	5	3

9. Cash and cash equivalents

	2017	2016
	US$million	*US$million*
At 31 December		
Russian rubles	**34**	6
US dollars	**11**	29
	45	35

The above cash and cash equivalents mainly consisted of cash at banks.

10. Inventories

	2017	2016
	US$million	*US$million*
At 31 December		
Raw materials and spare parts	**9**	11
Work-in-progress	**32**	20
Finished goods	**8**	2
	49	33

In 2017 and 2016, write-down of inventories to net realizable value amounted to US$4 million and US$5 million, respectively.

11. Trade and other receivables and prepayments

	2017	2016
	US$million	*US$million*
At 31 December		
Trade accounts receivable	**28**	36
Prepayments	**8**	6
Other receivables	**2**	2
	38	44
Allowance for doubtful accounts	**(2)**	–
	36	44

Movement in the allowance for doubtful accounts

	2017	2016
	US$million	*US$million*
At 1 January	**–**	–
Charge for the year	**1**	–
Amounts written off	**–**	–
Translation difference	**1**	–
At 31 December	**2**	–

12. Related party disclosures

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with related parties

	Sales to related parties		Purchases from related parties	
	2017	2016	2017	2016
	US$million	*US$million*	*US$million*	*US$million*
East Metals A.G.	**291**	170	**–**	–
Yuzhkuzbassugol	**154**	81	**49**	30
Evraz NTMK	**80**	32	**–**	–
Evraz DMZ	**61**	4	**–**	–
Evraz ZSMK	**59**	8	**10**	6
Evraz Yuzkoks	**6**	–	**–**	–
Mezhegeyugol	**2**	2	**–**	–
Southen Kuzbass	**2**	2	**–**	–
UK Evraz Mezhdurechensk	**–**	5	**–**	–
Metallenergofinance	**–**	–	**17**	12
Inprom	**–**	–	**4**	2
OOO EvrazHolding	**–**	–	**2**	2
CHOP Interlock	**–**	–	**2**	2
OUS	**–**	–	**1**	1
Other	**–**	–	**3**	1
	655	304	**88**	56

12. Related party disclosures (continued)

Amounts owed by/to related parties

	Amounts due from related parties		Amounts due to related parties	
	2017	**2016**	**2017**	**2016**
	US$million	*US$million*	*US$million*	*US$million*
At 31 December				
Yuzhkuzbassugol	**139**	83	**413**	423
Evraz ZSMK	**108**	150	**4**	2
Evraz NTMK	**73**	131	**–**	–
East Metals A.G.	**65**	57	**–**	–
Evraz DMZ	**13**	6	**–**	–
Mezhegeyugol	**1**	2	**3**	9
UK Evraz Mezhdurechensk	**–**	1	**–**	–
TC EvrazHolding	**–**	–	**15**	4
Metallenergofinance	**–**	–	**4**	5
Inprom	**–**	–	**2**	1
OOO EvrazHolding	**–**	–	**1**	1
Other	**–**	–	**2**	3
	399	430	**444**	448

Evraz ZSMK (AO EVRAZ United West Siberian Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group sold to the entity raw coal and coal concentrate.

Evraz NTMK (AO EVRAZ Nizhny Tagil Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group sold to the entity coal concentrate.

On December 26, 2016 OOO RUK issued a guarantee in favour of Unicreditbank for Evraz NTMK in amount of 2,5 bln. rub. (US$43 mln. at the exchange rate as at 31 December 2017) and for Evraz ZSMK in amount of 1,5 bln. rub. (US$26 mln. at the exchange rate as at 31 December 2017) under overdraft agreements between bank and Evraz NTMK, Evraz ZSMK. In turn, Evraz NTMK and Evraz ZSMK issued guarantees in favour of Unicreditbank for OOO RUK in amount of 1 bln. rub. (US$17 mln. at the exchange rate as at 31 December 2017) from Evraz NTMK and in amount of 1 bln. rub. (US$17 mln. at the exchange rate as at 31 December 2017) from Evraz ZSMK.

Yuzhkuzbassugol (AO United Coal Company “Yuzhkuzbassugol”) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group sold to the entity raw coal. The Group also sales property plant and equipment (PPE) to Yuzhkuzbassugol and purchases PPE from Yuzhkuzbassugol.

OOO Raspadskaya Coal Company (RUK) is managing company for Yuzhkuzbassugol and all coal products of Yuzhkuzbassugol are being sold through RUK. Acting as a trade agent, RUK charges predetermined margins for all those sales from Yuzhkuzbassugol. In addition, RUK purchases all inventories and equipment for Yuzhkuzbassugol.

East Metals A.G. is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group sold to the entity coal concentrate.

Evraz DMZ (Private Joint-stock company “Evraz Dneprovsk metallurgical plant”) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group sold to the entity coal concentrate.

Mezhegeyugol (OOO Coal Company Mezhegeyugol) is an entity under control of Evraz. In the year ended 31 December 2017 and 2016 the Group sold to the entity inventories and equipment. In the year ended 31 December 2016 the Group also sold to the entity raw coal and property plant and equipment (PPE).

12. Related party disclosures (continued)

Amounts owed by/to related parties (continued)

UK Evraz Mezhdurechensk (OOO UK Evraz Mezhdurechensk) is an entity under control of Evraz. In the year ended 31 December 2016, the Group rendered consulting services to the entity.

Evraz Yuzkoks (Private Joint-stock company “Evraz Yuzkoks”) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016 the Group sold to the entity coal concentrate. The entity ceased to be related party of the Group from December 2017.

Metallenergofinance (OOO Metallenergofinance) is an entity under control of Evraz. In the year ended 31 December 2017 and 2016, the Group bought electricity from the entity.

OUS (OOO United Accounting Systems) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group purchased accounting services from the entity. From August 2017 the OUS as sole provider of accounting services for the Group was replaced be newly established entity CSR (OOO Centr Servisnykh Resheniy).

CHOP Interlock (OOO CHOP Interlock) is an entity under control of key management of the Company parent. In the year ended 31 December 2017 and 2016 the Group purchased security services from CHOP Interlock.

OOO EvrazHolding is an entity under control of Evraz. In the year ended 31 December 2017 and 2016, the Group purchased ongoing consulting and treasury management services from OOO EvrazHolding.

Inprom (AO EVRAZ Metall Inprom) is an entity under control of Evraz. In the years ended 31 December 2017 and 2016, the Group purchased metal products and transport services from the entity.

Southern Kuzbass (PJSC Southern Kuzbass Coal Company), a Russian coal mining company controlled by OAO Mechel, is a minority shareholder of a subsidiary of the Group. The subsidiary renders transportation services to the Group and to Southern Kuzbass.

TC EvrazHolding (OOO Trade Company EvrazHolding) is an entity under control of Evraz. In 2017 and 2016 the Group bought from TC EvrazHolding certain steel products.

Evraz KGOK (AO EVRAZ Kachkanarsky Mining-and-Processing Integrated Works) is an entity under control of Evraz.

On 27 April 2017 the Group repaid loan participation note, issued by the Group with par value US$374 million plus accrued interest US$14 million to Evraz Group S.A. (including US$5 million accrued in 2016). Interest expense accrued on bonds hold by Evraz Group S.A. equals to US$9 million for the 2017.

12. Related party disclosures (continued)

Loans from related parties

Creditor	Currency	Final maturity date	Interest rate	Opening balance as at 31 December 2016	Principal received	Interest accrued	Repayment	Translation difference	Closing balance as at 31 December 2017
				US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
Evraz KGOK	USD	2 July 2018	5.79%	–	**140**	**3**	**(117)**	**–**	**26**
Evraz ZSMK	RUB	28 April 2018	9.16%	–	**41**	**2**	**(30)**	**(1)**	**12**
Evraz ZSMK	RUB	30 April 2018	9.46%	–	**89**	**4**	**(89)**	**(4)**	**–**
Evraz KGOK	USD	2 June 2019	5.30%	29	**–**	**1**	**(30)**	**–**	**–**
Evraz KGOK	USD	2 July 2018	5.90%	–	**69**	**1**	**(70)**	**–**	**–**
				29	**339**	**11**	**(336)**	**(5)**	**38**

Creditor	Currency	Final maturity date	Interest rate	Opening balance as at 31 December 2015	Principal received	Interest accrued	Repayment	Closing balance as at 31 December 2016
				US$million	*US$million*	*US$million*	*US$million*	*US$million*
Evraz Group S.A.	USD	31 August 2020	7.82%	83	–	3	(86)	–
Evraz KGOK	USD	2 June 2019	5.30%	–	60	1	(32)	29
				83	60	4	(118)	29

Loans issued to related parties

Borrower	Currency	Final maturity date	Interest rate	Opening balance as at 31 December 2016	Principal issued	Interest accrued	Repayment	Translation difference	Closing balance as at 31 December 2017
				US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
Evraz Group S.A.	RUB	28 April 2017	9.68%	72	**10**	**1**	**(85)**	**2**	**–**
				72	**10**	**1**	**(85)**	**2**	**–**

Borrower	Currency	Final maturity date	Interest rate	Opening balance as at 31 December 2015	Principal issued	Translation difference	Closing balance as at 31 December 2016
				US$million	*US$million*	*US$million*	*US$million*
Evraz Group S.A.	RUB	28 April 2017	9.68%	–	65	7	72
				–	65	7	72

12. Related party disclosures (continued)

Compensation to key management personnel

Key management personnel totalled 10 people and 8 people as at 31 December 2017 and 2016. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following:

	2017	2016
	US$million	*US$million*
Short-term benefits:		
Salary	**1**	1
Bonus	**1**	–
	2	1

13. Other taxes recoverable

	2017	2016
	US$million	*US$million*
At 31 December		
Other taxes recoverable	**59**	34

Other taxes recoverable represent mostly input VAT, which are amounts payable or paid to suppliers, and recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input VAT and believes it is fully recoverable within one year.

14. Equity

Share capital

As at 31 December 2017 and 2016, the Company's issued and fully paid number of shares consisted of 703,191,443 ordinary shares with par value 0.004 rubles each, respectively; the authorized share capital consisted of 1,401,202,730 ordinary shares.

Issued and fully paid shares and treasury shares

	Number of issued shares	Issued capital
		US$000
At 31 December 2016	703,191,443	273
At 31 December 2017	**703,191,443**	**273**

Reserve capital

According to Russian law, the Group creates a reserve capital in the amount of 5% of share capital per Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses and for redemption of the Company's bonds and purchase of own shares if there are no other sources of financing. As of 31 December 2017 and 31 December 2016 reserve capital was US$7 thousand.

14. Equity (continued)

Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. The Company has no potentially dilutive ordinary shares, diluted earnings per share is therefore equal to basic earnings per share.

	2017	2016
Profit for the year attributable to equity holders of the parent, US$million	**319**	185
Weighted average number of outstanding ordinary shares	**703,191,443**	703,191,443
Basic and diluted profit per share, US dollars	**0.45**	0.26

Dividends

No dividends were declared in 2017 and 2016.

15. Loans and borrowings

Loans and borrowings by source

	2017	2016
	US$million	*US$million*
At 31 December		
7.75% notes due in 2017	**–**	400
Interest payable	**–**	5
	–	405

On 27 April 2017 the Group repaid loan participation notes amounting to US$400 million, which were issued in April 2012 and beared an interest of 7.75% per annum payable semi-annually.

Instrument	Opening balance as at 31 December 2016	Interest accrued	Repayment	Closing balance as at 31 December 2017
	US$million	*US$million*	*US$million*	*US$million*
USD 7.75% bonds due 2017	405	**10**	**(415)**	**–**

Instrument	Opening balance as at 31 December 2015	Interest accrued	Repayment	Closing balance as at 31 December 2016
	US$million	*US$million*	*US$million*	*US$million*
USD 7.75% bonds due 2017	406	30	(31)	405

16. Employee benefits

In accordance with collective bargaining agreements, internal regulations and informal practices, the Group provides post-employment benefits (such as regular material support to its retired employees, lump-sum funeral compensations to employees and retired employees, lump-sum payments at retirement) and other long-term benefits (such as lump-sum payments to employees linked to retirement and jubilee ages, survivor's benefits paid for family members of employees and lump-sum funeral compensations to employees in case of death of a family member). These benefits are unfunded and paid directly to the beneficiaries or through Council of Veterans.

The levels of benefits are either salary-based (i.e. depend on the salary of employee at the moment of benefit provision) or fixed (i.e. do not depend on salaries, wages and tariff rates). According to the Group's practices employees' salaries and fixed benefits are indexed for inflation levels (or above). Moreover, some benefits are provided on a life-long basis. Therefore, the plan is exposed to Russian Federation inflation and changes in the life expectancy of the beneficiaries.

Defined contribution plans represent payments made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

In the years ended 31 December 2017 and 2016, the Group's expenses under defined contribution plans amounted to US$26 million and US$23 million, respectively.

Defined benefit plans

The principal assumptions used in determining pension obligations for the Group's plan are shown in the following table:

	2017	2016
Discount rate	**7.6%**	8.2%
Future benefits increases	**5.0%**	7.0%
Future salary increases	**5.0%**	7.0%
Average life expectation, male, years	**68.6**	68.5
Average life expectation, female, years	**79.1**	78.9

The Group's defined benefit plan is unfunded.

The components of net benefit expense recognized in the consolidated statement of comprehensive income for the years ended 31 December 2017 and 2016 and amounts recognized in the consolidated statement of financial position as at 31 December 2017 and 2016 for the defined benefit plan were as follows:

Net benefit expense (recognized in the statement of comprehensive income within cost of sales and general and administrative expenses)

	2017	2016
	US$million	*US$million*
Current service cost	**1**	1
Interest cost on benefit obligation	**1**	1
Net actuarial gain recognised in the year	**(1)**	–
Past service cost	**–**	1
Curtailment gain	**–**	(1)
	1	2

16. Employee benefits (continued)

Gains/(losses) recognised in other comprehensive income

	2017	2016
	US$million	*US$million*
At 31 December		
Net actuarial loss on post-employment benefits obligation	**(1)**	–
	(1)	–

Movements in net benefit liability

	2017	2016
	US$million	*US$million*
At 1 January	**16**	12
Net benefit expense recognised in the statement of comprehensive income	**1**	2
Loss recognised in other comprehensive income	**1**	–
Contributions by employer	**(1)**	(1)
Translation difference	**–**	3
At 31 December	**17**	16

The weighted average duration of the defined benefit obligation was 11.77 and 13.02 years in 2017 and 2016, respectively.

Movement in benefit obligation

	2017	2016
	US$million	*US$million*
At 1 January	**16**	12
Interest cost on benefit obligation	**1**	1
Current service cost	**1**	1
Past service cost	**–**	1
Benefits paid	**(1)**	(1)
Actuarial (gains)/losses on benefit obligation related to changes in financial assumptions	**(2)**	–
Actuarial (gains)/losses on benefit obligation related to experience adjustments	**2**	–
Curtailment gain	**–**	(1)
Translation difference	**–**	3
At 31 December	**17**	16

Changes in the fair value of plan assets

	2017	2016
	US$million	*US$million*
At 1 January	**–**	–
Contributions of employer	**1**	1
Benefits paid	**(1)**	(1)
At 31 December	**–**	–

16. Employee benefits (continued)

Changes in the fair value of plan assets (continued)

The amount of contributions expected to be paid to the defined benefit plans during 2018 approximates US$1 million.

The following table demonstrates the sensitivity analysis of reasonable changes in the significant assumptions used for the measurement of the defined benefit obligations, with all other variables held constant.

	Increase in assumption	Decrease in assumption
Discount rate		
Reasonable change in assumption (relative change)	10%	(10%)
Impact on the defined benefit obligation, US$million	**(1)**	**2**
Future benefits increase		
Reasonable change in assumption (relative change)	10%	(10%)
Impact on the defined benefit obligation, US$million	**1**	**(1)**
Future salary increase		
Reasonable change in assumption (relative change)	10%	(10%)
Impact on the defined benefit obligation, US$million	**–**	**–**
Average life expectation, male, years		
Reasonable change in assumption	1	(1)
Impact on the defined benefit obligation, US$million	**–**	**–**
Average life expectation, female, years		
Reasonable change in assumption	1	(1)
Impact on the defined benefit obligation, US$million	**–**	**–**

17. Provisions

At 31 December the provisions were as follows:

	2017		**2016**	
	Non-current	**Current**	**Non-current**	**Current**
	US$million	*US$million*	*US$million*	*US$million*
Site restoration	**13**	**3**	7	–
Longwall provisions	**–**	**4**	–	3
	13	**7**	7	3

17. Provisions (continued)

In the years ended 31 December 2017 and 2016, the movement in provisions was as follows:

	Site restoration	Longwall provisions	Total
	US$million	*US$million*	*US$million*
At 1 January 2016	5	1	6
Additional provisions	–	2	2
Increase from passage of time	1	–	1
Effect of change in the discount rate	1	–	1
Effect of changes in estimated costs and timing	(1)	–	(1)
Utilised in the year	–	(1)	(1)
Translation difference	1	1	2
At 31 December 2016	7	3	10
Additional provisions	**1**	**3**	**4**
Increase from passage of time	**1**	**–**	**1**
Effect of change in the discount rate	**3**	**–**	**3**
Effect of changes in estimated costs and timing	**4**	**–**	**4**
Utilised in the year	**–**	**(2)**	**(2)**
Translation difference	**–**	**–**	**–**
At 31 December 2017	**16**	**4**	**20**

Site restoration costs

Under Russian law, mining companies have obligations to restore mining sites. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate of 8.00% and 9.00% for the years ended 31 December 2017 and 2016, respectively.

Longwall provisions

Longwall provisions are provisions for longwall dismantling. They are measured based on estimates of longwall dismantling costs. These provisions are expected to be utilised within 1 year.

18. Trade and other payables

	2017	2016
	US$million	*US$million*
At 31 December		
Trade and other accounts payable	**59**	45
Accrued payroll	**10**	10
	69	55

19. Other taxes payable

	2017	2016
	US$million	*US$million*
At 31 December		
VAT	**30**	26
Other taxes	**7**	7
	37	33

20. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within Russia suggest that tax authorities are taking a more assertive position in their interpretation of 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. As such, significant additional taxes, fines and penalties may be assessed.

Management believes that its interpretation of relevant legislation is appropriate and that the Group has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Contractual commitments

As at 31 December 2017 the Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$10 million.

Social commitments

The Group is involved in a number of social programs aimed to support education, health care and social infrastructure development in the towns where the Group's assets are located. In 2018 the Group plans to spend US$1 million under these programs.

20. Commitments and contingencies (continued)

Environmental protection

The Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on the Group's financial position or results of operations. Under the Plan on environmental protection authorized by management, the Group expects to spend US$5 million in the years 2018-2022.

Insurance policies

The Group maintains obligatory insurance policies required by Russian law. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

21. Financial risks management objectives and policies

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial assets that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable. To manage credit risk related to cash, the Group maintains its available cash, mainly in Russian rubles in major Russian state banks and reputable Russian affiliates of international banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a limited number of customers, to whom the Group sells on credit terms. The Group has developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed in the following table:

	2017	**2016**
	US$million	*US$million*
At 31 December		
Long-term receivables (Note 8)	**1**	1
Trade and other receivables	**28**	38
Receivables from related parties	**399**	429
Loans receivable from related parties	**–**	72
Short-term investments, cash and cash equivalents (Note 9)	**45**	35
	473	575

Receivables from related parties in the table above do not include prepayments in the amount of US$nil and US$1 million as of 31 December 2017 and 2016, respectively.

21. Financial risks management objectives and policies (continued)

Ageing analysis of trade and other receivables

	2017		2016	
	Gross amount	Impairment	Gross amount	Impairment
	US$million	*US$million*	*US$million*	*US$million*
At 31 December				
Not past due	**231**	**–**	272	–
Past due:				
not more than 6 months	**157**	**–**	249	–
more than 6 months	**42**	**(2)**	19	–
	430	**(2)**	540	–

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group prepares a detailed financial plan on the monthly basis which ensures that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days.

All of the Group's financial liabilities are non-derivative financial instruments.

The following two tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

	Not more than 1 year	1 to 2 years	2 to 5 years	Total
	US$million	*US$million*	*US$million*	*US$million*
At 31 December 2017				
Fixed-rate debt				
Loans and borrowings				
Principal	**36**	**–**	**–**	**36**
Interest	**3**	**–**	**–**	**3**
	39	**–**	**–**	**39**
Non-interest bearing debt				
Trade and other payables	**59**	**–**	**–**	**59**
Payables to related parties	**444**	**–**	**–**	**444**
	503	**–**	**–**	**503**
	542	**–**	**–**	**542**

21. Financial risks management objectives and policies (continued)

Liquidity risk (continued)

	Not more than 1 year	1 to 2 years	2 to 5 years	Total
	US$million	*US$million*	*US$million*	*US$million*
At 31 December 2016				
Fixed-rate debt				
Loans and borrowings				
Principal	400	–	29	429
Interest	17	2	1	20
	417	2	30	449
Non-interest bearing debt				
Trade and other payables	45	–	–	45
Payables to related parties	446	–	–	446
	491	–	–	491
	908	2	30	940

Payables to related parties in the tables above do not include advances received in the amount of US$nil and US$2 million as of 31 December 2017 and 2016, respectively.

Currency risk

The Group is exposed to currency risk on sales, purchases, deposits and borrowings that are denominated in a currency other than the Group's functional currency. The currencies in which these transactions are primarily denominated are US dollars and euro.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

The Group's exposure to currency risk determined as the net monetary position in respective currencies is set out in the following table:

	2017	2016
	US$million	*US$million*
At 31 December		
USD/RUB	**68**	(339)
EUR/RUB	**(13)**	(2)

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change, the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period:

21. Financial risks management objectives and policies (continued)

Sensitivity analysis (continued)

	2017		2016	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
		US$million		*US$million*
USD/RUB	**(10.01)**	**(7)**	(20.02)	68
	10.01	**7**	20.02	(68)
EUR/RUB	**(11.35)**	**1**	(20.68)	–
	11.35	**(1)**	20.68	–

Interest rate risk

The Group incurs interest rate risk on loans and borrowings. The Group borrows on fixed rate basis only.

The following table summarizes the Group's outstanding interest-bearing debt:

	2017	**2016**
	US$million	*US$million*
At 31 December		
Fixed-rate debt	**36**	429
	36	429

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder wealth. There were no changes in the objectives, policies and processes of the Group's capital management during 2017.

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments and purchase of treasury shares.

Fair value of financial instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, variable rate short-term and variable rate long-term loans payable approximate their fair value.

Fair value of USD 5.79% loan from Evraz KGOK due in 2018 with carrying amount US$26 million and fair value of RUR 9.16% loan from Evraz ZSMK due in 2018 with carrying amount US$12 million are determined by using discounting cash flow model and approximate their fair value. Interest rate applied for fair value calculation was determined based on yields of Raspadskaya bonds and commercial banks to non-financial entities.

22. Events after the reporting period

There were no events to be disclosed after reporting period.