Independent auditor's report on the consolidated financial statements of ***PJSC Raspadskaya and its subsidiaries*** for 2016

March 2017

Translation of the original Russian version

Independent auditor's report
on the consolidated financial statements of
PJSC Raspadskaya
and its subsidiaries

Translation of the original Russian version

Contents

		Page
Independent auditor's report		3
Appendices		
Consolidated statement of comprehensive income		8
Consolidated statement of financial position		9
Consolidated statement of changes in equity		10
Consolidated cash flow statement		11
Notes to the consolidated financial statements		
1.	Corporate information	12
2.	Significant accounting policies	12
3.	Significant accounting judgments and estimates	24
4.	Revenue	26
5.	Expenses	26
6.	Income tax	26
7.	Property, plant and equipment	28
8.	Other non-current assets	31
9.	Cash and cash equivalents	31
10.	Inventories	31
11.	Trade and other receivables and prepayments	31
12.	Related party disclosures	32
13.	Other taxes recoverable	35
14.	Equity	35
15.	Loans and borrowings	36
16.	Employee benefits	37
17.	Provisions	40
18.	Trade and other payables	40
19.	Other taxes payable	41
20.	Commitments and contingencies	41
21.	Financial risks management objectives and policies	42
22.	Events after the reporting period	46

Independent auditor's report

Translation of the original Russian version

To the Shareholders 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 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016, 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 financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for 2016 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.

Translation of the original Russian version

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 these matters. 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 matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Non-current assets impairment

The Group recognised gain from reversal of impairment in respect of property, plant and equipment as a result of the impairment testing at the level of cash-generating units in the amount of US51 million. In addition, the Group made a write-off of certain obsolete items of property, plant and equipment in amount of US$17 million. This matter was of most significance to our audit as estimating the recoverable amount of the assets requires 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.

Our procedures in respect of management's assessment of the impairment reversal and write off of property, plant and equipment included:

- We assessed management's assumptions used in their impairment model with reference to historical data and, where applicable, external benchmarks.
- We evaluated the impairment model with the assistance of our valuation specialists and analyzed management's sensitivity calculations.
- We assessed the historical accuracy of management's budgets and forecasts, and sought appropriate evidence for any anticipated improvements in major assumptions such as production volumes or cost reductions. We compared previous forecasts with actual data.
- We considered the appropriateness of the related disclosures provided in the Note 7 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.

Translation of the original Russian version

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.

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.

Translation of the original Russian version

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.

- 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.

Translation of the original Russian version

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.A. Shlenkin.

A.A. SHLENKIN
Partner
Ernst & Young LLC

23 March 2017

Details of the audited entity

Name: PJSC "Raspadskaya"
Record made in the State Register of Legal Entities on 6 November, 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.

Translation of the original Russian version

PJSC Raspadskaya

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016	2015*
		US$million	*US$million*
Revenue			
Sales of goods		**466**	396
Rendering of services		**36**	23
	4	**502**	419
Cost of sales	5	**(292)**	(299)
Gross profit		**210**	120
Selling and distribution costs	5	**(17)**	(20)
General and administrative expenses	5	**(20)**	(25)
Social expenses		**(1)**	(1)
Loss on disposal of property, plant and equipment		**(1)**	(3)
Impairment of assets		**34**	(66)
Foreign exchange gain/(losses)		**77**	(111)
Other operating income		**1**	3
Other operating expenses		**(12)**	(16)
Operating profit/(loss)		**271**	(119)
Gain from financial assets sale		**–**	1
Interest income		**–**	1
Interest expense		**(38)**	(39)
Profit/(loss) before income tax		**233**	(156)
Income tax benefit/(expense)	6	**(48)**	30
Profit/(loss) for the year		**185**	(126)
Other comprehensive income/(loss)			
Effect of translation to presentation currency		**36**	(55)
Actuarial loss on employee benefits obligation	16	**–**	–
Net loss on available-for-sale financial assets		**–**	(1)
Other comprehensive income/(loss) for the year, net of tax		**36**	(56)
Total comprehensive income/(loss) for the year, net of tax		**221**	(182)
Profit/(loss) for the year attributable to:			
Equity holders of the parent		**185**	(126)
Non-controlling interests		**–**	–
		185	(126)
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the parent		**220**	(181)
Non-controlling interests		**1**	(1)
		221	(182)
Earnings/(losses) per share:			
basic and diluted, for the profit/(loss) for the year attributable to equity holders of the parent, *US dollars* (17.25 rubles and (12.02) rubles for the years ended 31 December 2016 and 2015, respectively)	14	**0.26**	(0.18)

* The amounts shown here do not correspond to the previously issued financial statements and reflect reclassifications described in Note 2.

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

PJSC Raspadskaya

Consolidated statement of financial position

as at 31 December 2016

	Notes	2016	2015
		US$million	*US$million*
Assets			
Non-current assets			
Property, plant and equipment	7	**633**	499
Deferred income tax asset	6	**93**	103
Other non-current assets	8	**3**	5
		729	607
Current assets			
Inventories	10	**33**	23
Trade and other receivables	11	**38**	34
Prepayments	11	**6**	4
Receivables from related parties	12	**430**	150
Loans receivable from related parties	12	**72**	–
Income tax receivable		**4**	2
Other taxes recoverable	13	**34**	19
Cash and cash equivalents	9	**35**	48
		652	280
Assets held for sale		**–**	1
Total assets		**1,381**	888
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		**501**	316
Translation difference		**(569)**	(604)
		320	100
Non-controlling interests		**3**	2
		323	102
Non-current liabilities			
Long-term loans	15	**–**	400
Long-term loans from related parties	12	**29**	83
Deferred income tax liabilities	6	**58**	37
Post-employment benefits liabilities	16	**16**	12
Site restoration provision	17	**7**	5
		110	537
Current liabilities			
Trade and other payables	18	**55**	38
Advances from customers		**2**	–
Short-term loans and current portion of long-term loans	15	**405**	6
Payables to related parties	12	**448**	189
Income tax payable		**2**	–
Other taxes payable	19	**33**	15
Other provisions	17	**3**	1
		948	249
Total equity and liabilities		**1,381**	888

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

Translation of the original Russian version

PJSC Raspadskaya

Consolidated cash flow statement

for the year ended 31 December 2016

	Notes	2016	2015
		US$million	*US$million*
Operating activities			
Profit/(loss) for the period		**185**	(126)
Adjustments to reconcile net profit/loss to net cash flows from operating activities			
Depreciation, depletion and amortization	5	**42**	44
Deferred income tax expense/(benefit)	6	**40**	(36)
Loss on disposal of property, plant and equipment		**1**	3
Impairment of assets		**(34)**	66
Foreign exchange (gain)/losses		**(77)**	111
Gain from financial assets sale		**–**	(1)
Interest income		**–**	(1)
Interest expense		**38**	39
Changes in provisions and other long-term assets and liabilities		**2**	(5)
		197	94
Changes in working capital			
Inventories		**(7)**	8
Trade and other receivables		**2**	(21)
Prepayments		**(1)**	(3)
Receivables from/payables to related parties		**(47)**	18
Taxes recoverable		**(12)**	(4)
Trade and other payables		**23**	19
Advances from customers		**1**	–
Taxes payable		**15**	(7)
Net cash flows from operating activities		**171**	104
Investing activities			
Purchases of property, plant and equipment		**(38)**	(36)
Proceeds from disposal of property, plant and equipment		**3**	2
Loans issued to related parties	12	**(65)**	–
Other investing activities, net		**2**	2
Net cash flows used in investing activities		**(98)**	(32)
Financing activities			
Proceeds from loans from related parties	12	**60**	102
Repayment of loans from related parties, including interest	12	**(118)**	(120)
Repayment of loans, including interest		**(31)**	(31)
Net cash flows used in financing activities		**(89)**	(49)
Effect of foreign exchange rate changes on cash and cash equivalents		**3**	(2)
Net increase/(decrease) in cash and cash equivalents		**(13)**	21
Cash and cash equivalents at the beginning of the year		**48**	27
Cash and cash equivalents at the end of the year	9	**35**	48
Supplementary cash flow information			
Cash flows during the year			
Interest paid		**35**	37
Interest received		**–**	–
Income tax paid		**9**	8

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 2016

	Attributable to equity holders of the parent								
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Unrealized gain on available-for-sale investments**	**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*	*US$million*
At 31 December 2014	–	388	–	442	1	(550)	281	3	284
Loss for the year	–	–	–	(126)	–	–	(126)	–	(126)
Other comprehensive loss	–	–	–	–	(1)	(54)	(55)	(1)	(56)
Total comprehensive loss	–	–	–	(126)	(1)	(54)	(181)	(1)	(182)
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**

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 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 23 March 2017. OAO Raspadskaya was reregistered as PJSC Raspadskaya on 16 June 2016.

The Company's controlling shareholder was Corber Enterprises S.a.r.l. (Luxembourg), which owned approximately 81.95% of the Company's shares. Till 1 March 2016 Corber was a 50/50 joint venture of Mastercroft S.a.r.l. (Luxembourg) and Evraz Group S.A. (Luxembourg), a direct subsidiary of Evraz plc (UK). In March-July 2016 in the course of Evraz Group reorganisation, the ownership of the Raspadskaya's 81.95% shares was transferred to Evraz Group S.A. Mastercroft S.a.r.l. and Corber Enterprises S.a.r.l. were liquidated on 1 March 2016 and 26 July 2016, respectively.

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 78% and 85% of their revenues from sales of coking coal in 2016 and 2015, 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 2016 and 2015, 60% and 61%, 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		Business activity
	2016	**2015**	
OAO MUK-96	**100%**	100%	Coal mining
ZAO Razrez Raspadskiy	**100%**	100%	Coal mining
ZAO Raspadskaya-Koksovaya	**100%**	100%	Coal mining
ZAO Raspadskaya Preparation Plant	**100%**	100%	Coal processing
OOO Raspadskaya Coal Company	**100%**	100%	Managing and coal trading

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. The Group consolidates a Eurobond vehicle − Raspadskaya Securities Designated Activity Company (previously – "Raspadskaya Securities Limited"), a special purpose entity registered in the Republic of Ireland.

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.

The Group's activities continue to be affected by the uncertainty and instability of the current economic environment. In response, the Group implemented a number of cost cutting initiatives, reduced capital expenditures, continues to reduce the level of debt and proactively manages its debt covenants compliance. In April 2017 the Group is obliged to repay US$400 million of loan participation notes US$374 million of which as at the reporting date are held by the companies under common control with EVRAZ plc. The Group is accumulating own sources of funds for repayment and also agreed borrowings from the companies under common control with EVRAZ plc.

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.

Restatement of financial statements

Reclassification of expenses

In 2016, the Group reclassified property tax accrued by the production subsidiaries from general and administrative expenses to the "cost of sales" caption. The reclassification was made to better reflect the nature of these costs in the current business environment and in order to make the financial statements more comparable with industry peers.

The effects of the restatement on the previously reported amounts are set out below.

	Year ended 31 December 2015		
	As previously reported	**Property tax reclas-sification**	**Restated**
	US$million	*US$million*	*US$million*
Consolidated statement of comprehensive income			
Cost of sales	(295)	(4)	(299)
Gross profit	**124**	**(4)**	**120**
General and administrative expenses	(29)	4	(25)

Changes in accounting policies

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 2016.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

New/revised standards and interpretations adopted in 2016

- *Amendments to IAS 1 – Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify existing IAS 1 requirements:

- The materiality requirements in IAS 1;
- The requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI;
- That specific line items in the statements of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- *Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

- *Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- *Amendments to IAS 16 and IAS 41 – Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

- *Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exemption*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

- *Amendments to IAS 27 – Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

- *Annual improvements to IFRSs 2012-2014 cycle*

The amendments relate to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits*, IAS 34 *Interim Financial Reporting*.

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 other 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 2016	Effective for annual periods beginning on or after
► Amendments to IAS 7 – *Disclosure Initiative*	1 January 2017
► Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
► 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

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.

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.

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

	2016		2015	
	31 December	average	31 December	average
USD/RUB	60.6569	67.0349	72.8827	60.9579
EUR/RUB	63.8111	74.2336	79.6972	67.7767

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 consolidated statement of comprehensive income.

2. Significant accounting policies (continued)

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.

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 elects whether it 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized 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 is not remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized 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 subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, 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.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

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 values of the operation disposed of and the portion of the cash-generating unit retained.

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 these consolidated financial statements.

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 capitalized 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 and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each reporting date 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 costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an impairment loss in the statement of comprehensive income. An impairment loss recognized 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 and assets under construction are not depreciated. Depreciation on other classes of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets.

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 following table sets out useful lives of items of property, plant and equipment.

	Useful lives (years)	**Weighted average useful life (years)**
Buildings and constructions	15-60	25
Machinery and equipment	4-45	11
Transport and motor vehicles	7-20	4
Other assets	3-15	4

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

Depletion of mining assets including capitalized site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves.

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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 of 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.

Financial assets

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

Financial assets 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”. Financial assets which are included in this category are subsequently carried at fair value; gains or losses on such financial assets are recognized in 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 amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

2. Significant accounting policies (continued)

Financial assets (continued)

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

Financial 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 financial investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale financial investments are measured at fair value with gains or losses being recognized as a separate component of other comprehensive income until the investment is derecognized 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 profit or loss. Reversals of impairment losses in respect of equity instruments are not recognized 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 recognized in the statement of comprehensive income.

For investments that are actively traded in organized 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 valuation models.

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 recognized on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Trade and other receivables

Accounts receivable, which generally are short term, are recognized 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.

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 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 collection 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, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and cash equivalents

Cash and cash equivalents, mainly denominated in rubles, comprise cash at bank and in hand, deposits with initial maturity of no more than 90 days, and deposits with initial maturity of more than 90 days with the right of repayment on demand.

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.

Financial liabilities

Borrowings

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

Accounts payable

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

2. Significant accounting policies (continued)

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.

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.

Provisions for site restoration costs are capitalized in mining assets 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.

Post-employment benefits

The Group companies provide pensions and other benefits to their employees. 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 consolidated statement of operations.

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

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.

2. Significant accounting policies (continued)

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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

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

Revenue is recognized when services are rendered. The Group’s revenues from rendering of services include transportation, operating rent and other services.

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 recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

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.

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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 group 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 year ended 31 December 2016 the impairment of property, plant and equipment in amount of US$34 million was reversed and in the year ended 31 December 2015 US$66 million was recognized as impairment of property, plant and equipment.

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.

Mineral reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortization 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 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.

3. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Site restoration provision

The Group reviews site restoration provision at each end of the reporting period, and adjusts it to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

More detailed information on estimations of mineral reserves and site restoration provision is provided in Notes 7 and 17, respectively.

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.

Allowances for doubtful accounts

The Group makes allowances for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. 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. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

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.

Deferred income tax assets

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 utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the statement of comprehensive income.

4. Revenue

Distribution of revenue by region

	2016		2015	
	Amount	**Portion**	**Amount**	**Portion**
	US$million		*US$million*	
Russia	**312**	**62%**	267	64%
Asia-Pacific	**163**	**32%**	113	27%
Europe	**27**	**6%**	39	9%
	502	**100%**	419	100%

Distribution of revenue by customer

	2016		2015	
	Amount	**Portion**	**Amount**	**Portion**
	US$million		*US$million*	
Evraz	**292**	**58%**	253	60%
MMK	**91**	**18%**	73	17%
Uralskaya stal	**49**	**10%**	41	10%
Other	**70**	**14%**	52	13%
	502	**100%**	419	100%

5. Expenses

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

	2016	2015
	US$million	*US$million*
Cost of inventories recognized as expense	**115**	109
Staff cost, including payroll taxes	**91**	109
Depreciation, depletion and amortization	**42**	44

6. Income tax

Major components of income tax expense

	2016	2015
	US$million	*US$million*
Current income tax		
Current income tax charge	**(11)**	(6)
Adjustments in respect of income tax of prior years	**3**	–
Deferred income tax		
Relating to origination and reversal of temporary differences	**(40)**	36
Income tax expense	**(48)**	30

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

6. Income tax (continued)

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:

	2016	2015
	US$million	*US$million*
Tax at the Russian statutory income tax rate of 20%	**(47)**	31
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	**(48)**	30

Movement in deferred income tax assets and liabilities

	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**

6. Income tax (continued)

Movement in deferred income tax assets and liabilities (continued)

	At 31 December 2015	Change recognized as income tax expense	Translation difference	At 31 December 2014
	US$million	*US$million*	*US$million*	*US$million*
Deferred income tax liabilities				
Property, plant and equipment	43	(11)	(14)	68
Other	3	2	(1)	2
	46	(9)	(15)	70
Deferred income tax assets				
Accrued liabilities	2	1	–	1
Loss carry forward	108	23	(30)	115
Other	2	3	(1)	–
	112	27	(31)	116
Total deferred income tax asset/(liability)	66	36	(16)	46
Represented by the following:				
Net deferred income tax asset	103	23	(28)	108
Net deferred income tax liability	37	(13)	(12)	62

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

	2016	2015
	US$million	*US$million*
At 31 December		
Cost		
Mining assets	**638**	569
Buildings and constructions	**80**	65
Machinery and equipment	**296**	244
Transport and motor vehicles	**45**	37
Other assets	**4**	6
Assets under construction	**48**	30
	1,111	951
Accumulated depreciation, depletion and impairment losses		
Mining assets	**(209)**	(238)
Buildings and constructions	**(26)**	(20)
Machinery and equipment	**(204)**	(163)
Transport and motor vehicles	**(33)**	(27)
Other assets	**(3)**	(3)
Assets under construction	**(3)**	(1)
	(478)	(452)
	633	499

7. Property, plant and equipment (continued)

Movement in property, plant and equipment

	Mining assets	Buildings and const-ructions	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 loss recognised in statement of operations	**(23)**	**–**	**(1)**	**–**	**–**	**(2)**	**(26)**
Impairment loss reversed through statement of operations	**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**

	Mining assets	Buildings and const-ructions	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 2014, cost, net of accumulated depreciation and depletion	397	62	113	18	4	141	735
Additions	–	–	–	–	–	38	38
Assets put into operation	102	2	24	2	–	(130)	–
Disposals	–	–	(6)	(1)	–	(1)	(8)
Depreciation and depletion charge	(15)	(3)	(20)	(6)	(1)	–	(45)
Impairment loss recognised in statement of operations	(83)	(2)	(3)	–	–	–	(88)
Impairment loss reversed through statement of operations	22	–	–	–	–	–	22
Other movements	–	–	(1)	–	–	(2)	(3)
Change in site restoration provision	4	–	–	–	–	–	4
Translation difference	(96)	(14)	(26)	(3)	–	(17)	(156)
At 31 December 2015, cost, net of accumulated depreciation and depletion	331	45	81	10	3	29	499

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$5 million and US$1 million as at 31 December 2016 and 2015, respectively.

The Group recognised gain from reversal of impairment as a result of the impairment testing at the level of cash-generating units. In addition, the Group made a write-off of certain functionally obsolete items of property, plant and equipment.

7. Property, plant and equipment (continued)

For the purpose of the impairment testing as of 31 December 2016 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.

The major driver that led to reversal of impairment at the level of cash-generating units was increase in in forecasted selling prices.

The Group used the following assumptions:

	Period of forecast, years	**Pre-tax discount rate, % used in 2015**	**Pre-tax discount rate, % used in 2016**	**Commodity**	**Average price of commodity per tonne in 2017**
All CGUs of the Group	18	13.45-16.21	12.36-14.26	coal	$51

The value in use of the cash-generating unit MUK-96, which is one of the Group's mine for which an impairment loss was recognised in the reporting year, was as follows at 31 December.

	2016	**2015**
	US$million	*US$million*
At 31 December		
MUK-96	294	144

The Group suspended extraction at the MUK-96 mine in 2015 due to unfavourable conditions on the coal market together with the difficult geological conditions at this mine which have led to relatively high costs of extracting coal. The Group has plans to resume mining in 2020 should prices grow to the extent that commercial production becomes economically viable. As of 30 June 2016 the Group recognized an impairment loss following an impairment test at the level of the cash-generating unit related to MUK-96 in the amount of US$9 million.

As a result of relative improvement of economic environment in the second half of 2016 and reassessment of pre-tax discount rate and increase in average selling prices, all impairment at the level of the cash-generating unit related to MUK-96 including impairment loss recognised in the first half of 2016 was reversed (US$60 million).

The resulted gain from reversal of impairment for 2016 was US$51 million.

In the second half of 2016 the Group also wrote off certain functionally obsolete items of property, plant and equipment belonging to MUK-96 with no plans for further use in the amount of US$12 million.

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$4 million and belonging to Koksovaya mine in the amount of US$1 million.

8. Other non-current assets

	2016	2015
	US$million	*US$million*
At 31 December		
Loans to other companies	**–**	1
Loans to employees	**1**	1
Emergency inventories	**2**	3
	3	5

9. Cash and cash equivalents

	2016	2015
	US$million	*US$million*
At 31 December		
Russian rubles	**6**	12
US dollars	**29**	36
	35	48

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

10. Inventories

	2016	2015
	US$million	*US$million*
At 31 December		
Raw materials and spare parts	**11**	11
Work-in-progress	**20**	9
Finished goods	**2**	3
	33	23

In 2016 and 2015, write-down of inventories to net realizable value amounted to US$5 million and US$6 million, respectively.

11. Trade and other receivables and prepayments

	2016	2015
	US$million	*US$million*
At 31 December		
Trade accounts receivable	**36**	32
Prepayments	**6**	4
Other receivables	**2**	2
	44	38
Allowance for doubtful accounts	**–**	–
	44	38

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	
	2016	**2015**	**2016**	**2015**
	US$million	*US$million*	*US$million*	*US$million*
East Metals A.G.	**170**	118	**–**	–
Yuzhkuzbassugol	**81**	66	**30**	30
Evraz NTMK	**32**	12	**–**	–
Evraz ZSMK	**8**	42	**6**	1
UK Evraz Mezhdurechensk	**5**	–	**–**	–
Evraz DMZ	**4**	13	**–**	–
Southen Kuzbass	**2**	2	**–**	–
Mezhegeyugol	**2**	1	**–**	5
Evraz Yuzkoks	**–**	6	**–**	–
Metallenergofinance	**–**	–	**12**	14
Inprom	**–**	–	**2**	1
CHOP Interlock	**–**	–	**2**	1
OOO EvrazHolding	**–**	–	**2**	1
OUS	**–**	–	**1**	1
SPK	**–**	–	**–**	2
Other	**–**	–	**1**	2
	304	260	**56**	58

Amounts owed by/to related parties

	Amounts due from related parties		Amounts due to related parties	
	2016	**2015**	**2016**	**2015**
	US$million	*US$million*	*US$million*	*US$million*
At 31 December				
Evraz ZSMK	**150**	43	**2**	1
Evraz NTMK	**131**	39	**–**	–
Yuzhkuzbassugol	**83**	37	**423**	177
East Metals A.G.	**57**	18	**–**	–
Evraz DMZ	**6**	10	**–**	–
Mezhegeyugol	**2**	1	**9**	3
UK Evraz Mezhdurechensk	**1**	–	**–**	–
Evraz Yuzkoks	**–**	2	**–**	–
Metallenergofinance	**–**	–	**5**	3
TC EvrazHolding	**–**	–	**4**	3
OOO EvrazHolding	**–**	–	**1**	1
Other	**–**	–	**4**	1
	430	150	**448**	189

Evraz ZSMK (OAO EVRAZ United West Siberian Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2016 and 2015, the Group sold to the entity raw coal and coal concentrate.

12. Related party disclosures (continued)

Evraz NTMK (OAO EVRAZ Nizhny Tagil Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2016 and 2015, the Group sold to the entity coal concentrate.

On 26 December 2016 OOO RUK issued a guarantee in favour of Unicreditbank for Evraz NTMK in amount of 2.5 bln. rub. (US$41 mln. at the exchange rate as at 31 December 2016) and for Evraz ZSMK in amount of 1.5 bln. rub. (US$25 mln. at the exchange rate as at 31 December 2016) 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$16 mln. at the exchange rate as at 31 December 2016) from Evraz NTMK and in amount of 1 bln. rub. (US$16 mln. at the exchange rate as at 31 December 2016) from Evraz ZSMK.

Yuzhkuzbassugol (OAO United Coal Company “Yuzhkuzbassugol”) is an entity under control of Evraz. In the years ended 31 December 2016 and 2015, 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 2016 and 2015, the Group sold to the entity coal concentrate.

Evraz DMZ (Private Joint-stock company “Evraz Dneprovsk metallurgical plant”), before 4 May 2016 – PAO EVRAZ Dnepropetrovskiy metallurgical plant. Evraz DMZ is an entity under control of Evraz. In the years ended 31 December 2016 and 2015, 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 2015, the Group purchased coal from Mezhegeyugol. In 2016, the Group also sold property plant and equipment (PPE) to Mezhegeyugol.

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”), before 4 May 2016 – Public Joint-stock company “Evraz Bagleykoks”. Evraz Yuzkoks is an entity under control of Evraz. In the years ended 31 December 2016 and 2015, the Group sold to the entity coal concentrate.

Metallenergofinance (OOO Metallenergofinance) is an entity under control of Evraz. In the year ended 31 December 2016 and 2015, 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 2016 and 2015, the Group purchased accounting services from the entity.

CHOP Interlock (OOO CHOP Interlock) is an entity under control of key management of the Company parent. In the year ended 31 December 2016 and 2015 the Group purchased security services from CHOP Interlock.

OOO EvrazHolding is an entity under control of Evraz. In the year ended 31 December 2016 and 2015, the Group purchased ongoing consulting and treasury management services from OOO EvrazHolding.

Inprom (OAO EVRAZ Metall Inprom) is an entity under control of Evraz. In the years ended 31 December 2016 and 2015, the Group purchased metal products and transport services from the entity.

12. Related party disclosures (continued)

Southern Kuzbass (OAO Southern Kuzbass), 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.

SPK (OOO Constructing Industrial Company) is an entity under control of management of Raspadskaya. The entity renders cleaning and premises maintenance services to the Group. The entity ceased to be related party of the Group from May 2016.

TC EvrazHolding (OOO Trade Company EvrazHolding) is an entity under control of Evraz. In 2016 and 2015 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. The Group received loan in amount of US$60 million from Evraz KGOK in 2016.

Evraz Greenfield Development S.A is an entity under control of Evraz. The Group received loan in amount of US$55 million from Evraz Greenfield Development S.A. in 2014 and fully repaid it in 2015.

In 2016 Evraz Group S.A. bought loan participation notes, issued by the Group with par value US$160 million from third parties. As of 31 December 2016 the amortised cost of notes payable to Evraz Group S.A. amounted to US$379 million, including accrued interest US$5 million. Interest expense accrued on bonds hold by Evraz Group S.A. equals to US$26 million for the 2016.

Loans from related parties

Creditor	Currency	Final maturity date	Interest rate	Opening balance as at 31 December 2015	Principal received	Interest accrued for the period	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**

Creditor	Currency	Final maturity date	Interest rate	Opening balance as at 31 December 2014	Principal received	Interest accrued for the period	Repayment	Closing balance as at 31 December 2015
				US$million	*US$million*	*US$million*	*US$million*	*US$million*
Evraz Greenfield Development S.A.	USD	25 September 2015	7.0%	56	3	3	(62)	–
Evraz Group S.A.	USD	25 September 2015	7.0%	39	–	1	(40)	–
Evraz Group S.A.	USD	31 August 2020	7.82%	–	83	2	(2)	83
Evraz plc	USD	25 September 2015	7.0%	–	16	–	(16)	–
				95	102	6	(120)	83

12. Related party disclosures (continued)

Loans issued to related parties

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**

Compensation to key management personnel

Key management personnel totalled 8 people and 8 people as at 31 December 2016 and 2015. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following:

	2016	2015
	US$million	*US$million*
Short-term benefits		
Salary	**1**	1
	1	1

13. Other taxes recoverable

	2016	2015
	US$million	*US$million*
At 31 December		
Other taxes recoverable	**34**	19

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 2016 and 2015, 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 2015	703,191,443	273
At 31 December 2016	**703,191,443**	**273**

14. Equity (continued)

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 2016 and 31 December 2015 reserve capital was US$7 thousand.

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.

	2016	**2015**
Profit/(loss) for the year attributable to equity holders of the parent, *US$ million*	**185**	(126)
Weighted average number of outstanding ordinary shares	**703,191,443**	703,191,443
Basic and diluted profit/(loss) per share, *US dollars*	**0.26**	(0.18)

Dividends

No dividends were declared in 2016 and 2015.

15. Loans and borrowings

Loans and borrowings by source

	2016	**2015**
	US$million	*US$million*
At 31 December		
7.75% notes due in 2017	**400**	400
Interest payable	**5**	6
	405	406

On 27 April 2012 the Group issued loan participation notes in the amount of US$400 million. The notes bear an interest of 7.75% per annum payable semi-annually and mature on 27 April 2017. The terms and conditions of the 7.75% notes provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions. As at 31 December 2016 and for the year then ended, the Group complied with all the covenants.

Average annual interest rates

	2016	**2015**
US dollars	**7.75%**	7.75%

15. Loans and borrowings (continued)

Loans and borrowings by currency

	2016	2015
	US$million	*US$million*
At 31 December		
US dollars	**405**	406
	405	406

Loans and borrowings by period of repayment

	2016	2015
	US$million	*US$million*
At 31 December		
Not more than one year	**405**	6
After one year but not more than two years	**–**	400
	405	406

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 2016 and 2015, the Group's expenses under defined contribution plans amounted to US$23 million and US$30 million, respectively.

Defined benefit plans

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

	2016	2015
Discount rate	**8.2%**	9.6%
Future benefits increases	**7.0%**	8.0%
Future salary increases	**7.0%**	8.0%
Average life expectation, male, years	**68.5**	68.5
Average life expectation, female, years	**78.9**	78.9

16. Employee benefits (continued)

Defined benefit plans (continued)

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 2016 and 2015 and amounts recognized in the consolidated statement of financial position as at 31 December 2016 and 2015 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)

	2016	**2015**
	US$million	*US$million*
Current service cost	**1**	1
Interest cost on benefit obligation	**1**	1
Past service cost	**1**	(1)
Curtailment gain	**(1)**	–
	2	1

Gains/(losses) recognised in other comprehensive income

	2016	**2015**
	US$million	*US$million*
At 31 December		
Net actuarial gains on post-employment benefits obligation	**–**	–
	–	–

Movements in net benefit liability

	2016	**2015**
	US$million	*US$million*
At 1 January	**12**	16
Net benefit expense recognised in the statement of comprehensive income	**2**	1
Contributions by employer	**(1)**	(1)
Translation difference	**3**	(4)
At 31 December	**16**	12

The weighted average duration of the defined benefit obligation was 13.02 and 12.67 years in 2016 and 2015, respectively.

16. Employee benefits (continued)

Movement in benefit obligation

	2016	2015
	US$million	*US$million*
At 1 January	**12**	16
Interest cost on benefit obligation	**1**	1
Current service cost	**1**	1
Past service cost	**1**	(1)
Benefits paid	**(1)**	(1)
Actuarial (gains)/losses on benefit obligation related to changes in demographic assumptions	**–**	(1)
Actuarial (gains)/losses on benefit obligation related to changes in financial assumptions	**–**	2
Actuarial (gains)/losses on benefit obligation related to experience adjustments	**–**	(1)
Curtailment gain	**(1)**	–
Translation difference	**3**	(4)
At 31 December	**16**	12

Changes in the fair value of plan assets

	2016	2015
	US$million	*US$million*
At 1 January	**–**	–
Contributions of employer	**1**	1
Benefits paid	**(1)**	(1)
At 31 December	**–**	–

The amount of contributions expected to be paid to the defined benefit plans during 2017 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:

	2016		2015	
	Non-current	**Current**	**Non-current**	**Current**
	US$million	*US$million*	*US$million*	*US$million*
Site restoration	**7**	**–**	5	–
Longwall provisions	**–**	**3**	–	1
	7	**3**	5	1

In the years ended 31 December 2016 and 2015, the movement in provisions was as follows:

	Site restoration	**Longwall provisions**	**Total**
	US$million	*US$million*	*US$million*
At 1 January 2015	1	2	3
Additional provisions	–	4	4
Increase from passage of time	1	–	1
Effect of change in the discount rate	2	–	2
Effect of changes in estimated costs and timing	2	–	2
Utilised in the year	–	(4)	(4)
Translation difference	(1)	(1)	(2)
At 31 December 2015	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**

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 9.00% and 10.00% for the years ended 31 December 2016 and 2015, 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

	2016	**2015**
	US$million	*US$million*
At 31 December		
Trade accounts payable	**45**	29
Accrued payroll	**10**	9
	55	38

19. Other taxes payable

	2016	2015
	US$million	*US$million*
At 31 December		
VAT	**26**	9
Other taxes	**7**	6
	33	15

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 rouble 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 2016 the Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$20 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 2017 the Group plans to spend US$2 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 2017-2022.

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:

	2016	2015
	US$million	*US$million*
At 31 December		
Long-term receivables (Note 8)	**1**	2
Trade and other receivables	**38**	34
Receivables from related parties	**429**	150
Loans receivable from related parties	**72**	−
Short-term investments, cash and cash equivalents (Note 9)	**35**	48
	575	234

Receivables from related parties in the table above do not include prepayments in the amount of $1 million, and $Nil as of 31 December 2016 and 2015, respectively

21. Financial risks management objectives and policies (continued)

Ageing analysis of trade and other receivables

	2016		2015	
	Gross amount	Impairment	Gross amount	Impairment
	US$million	*US$million*	*US$million*	*US$million*
At 31 December				
Not past due	**272**	**–**	92	–
Past due:				
not more than 6 months	**249**	**–**	90	–
more than 6 months	**19**	**–**	4	–
	540	**–**	186	–

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 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**

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 2015				
Fixed-rate debt				
Loans and borrowings				
Principal	–	400	83	483
Interest	37	22	17	76
	37	422	100	559
Non-interest bearing debt				
Trade and other payables	29	–	–	29
Payables to related parties	187	–	–	187
	216	–	–	216
	253	422	100	775

Payables to related parties in the tables above do not include advances received in the amount of US$2 million, and US$2 million as of 31 December 2016 and 2015, 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:

	2016	2015
	US$million	*US$million*
At 31 December		
USD/RUB	**(339)**	(424)
EUR/RUB	**(2)**	(2)

21. Financial risks management objectives and policies (continued)

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:

	2016		**2015**	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
		US$million		*US$million*
USD/RUB	**(20.02)**	**68**	(13.00)	55
	20.02	**(68)**	40.00	(170)
EUR/RUB	**(20.68)**	**–**	(15.00)	–
	20.68	**–**	43.00	(1)

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:

	2016	**2015**
	US$million	*US$million*
At 31 December		
Fixed-rate debt	**429**	483
	429	483

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 2016.

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.

21. Financial risks management objectives and policies (continued)

Fair value of financial instruments (continued)

Fair value of 7.75% notes due in 2017 with carrying amount US$405 million is determined by reference to published price quotations in an active market and amounts to US$412 million.

Fair value of 5.30% loan from Evraz KGOK due in 2019 with carrying amount US$29 million is determined by using discounting cash flow model and amounted to US$26 million. Interest rate applied for fair value calculation was determined based on sum of yields of Raspadskaya bonds and US treasury securities.

22. Events after the reporting period

In February 2017 the Group signed the loan agreement with KGOK under which the Group may borrow up to US$140 million.