# PAO KOKS

## International Financial Reporting Standards
## Interim Condensed Consolidated Financial Information (unaudited)

## For the six months ended 30 June 2018

**Contents**

# *Report on Review of Interim Condensed Consolidated Financial Information*

To the Shareholders and Board of Directors of PAO Koks:

## Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PAO Koks and its subsidiaries (the Group) as of 30 June 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, “Interim Financial Reporting”.

AO PricewaterhouseCoopers Audit

22 August 2018

Moscow, Russian Federation

V. V. Konoplin, certified auditor (licence no. 01-000491), AO PricewaterhouseCoopers Audit

Audited entity: PAO Koks

State registration certificate № 3130 KE 401 362, issued by Administration of Kemerovo on 30 July 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 9 August 2002 under registration № 1024200680877

N6, 1-ya Stakhanovskaya street, Kemerovo, Russian Federation, 650021

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

*(in million RR unless stated otherwise)*

| | Note | At 30 June 2018 | At 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | 7 | 58,931 | 55,786 |
| Goodwill | | 4,497 | 4,497 |
| Intangible assets | 8 | 4,596 | 4,659 |
| Deferred income tax asset | | 2,240 | 1,604 |
| Non-current loans issued and long-term interest receivable | 9 | 15,256 | 10,394 |
| Other non-current assets | | 181 | 199 |
| **Total non-current assets** | | **85,701** | **77,139** |
| **Current assets:** | | | |
| Inventories | 10 | 7,173 | 6,828 |
| Trade and other receivables | 11 | 5,628 | 6,220 |
| VAT recoverable | | 3,079 | 3,612 |
| Advances issued | 11 | 499 | 366 |
| Current loans issued and short-term interest receivable | | 184 | 533 |
| Cash and cash equivalents | 12 | 12,103 | 8,978 |
| **Total current assets** | | **28,666** | **26,537** |
| **Total assets** | | **114,367** | **103,676** |
| **EQUITY** | | | |
| Share capital | 13 | 213 | 213 |
| Treasury shares | 13 | (11) | (11) |
| Retained earnings | 14 | 28,063 | 25,619 |
| Revaluation reserve | | 454 | 476 |
| Currency translation reserve | | (93) | (150) |
| **Equity attributable to the Company's equity holders** | | **28,626** | **26,147** |
| **Non-controlling interest** | | **290** | **711** |
| **Total equity** | | **28,916** | **26,858** |
| **LIABILITIES** | | | |
| **Non-current liabilities:** | | | |
| Provision for restoration liability | | 58 | 56 |
| Deferred income tax liability | | 2,008 | 1,682 |
| Long-term borrowings | 15 | 24,059 | 20,251 |
| Long-term bonds | 15 | 29,889 | 27,889 |
| Long-term lease obligation | | 114 | 106 |
| Other long-term payables | | 1 | 1 |
| **Total non-current liabilities** | | **56,129** | **49,985** |
| **Current liabilities:** | | | |
| Trade and other payables | 16 | 15,989 | 14,627 |
| Current income tax payable | | 166 | 131 |
| Other taxes payable | 17 | 1,364 | 1,291 |
| Provision for restoration liability | | 16 | 15 |
| Short-term borrowings and current portion of long-term borrowings | 15 | 7,292 | 6,631 |
| Short-term bonds | 15 | 4,430 | 4,087 |
| Short-term lease obligation | | 66 | 51 |
| **Total current liabilities** | | **29,322** | **26,833** |
| **Total liabilities** | | **85,451** | **76,818** |
| **Total liabilities and equity** | | **114,367** | **103,676** |

V.P. Morozov
First Vice President
Management Company Industrial Metallurgical Holding

L.V. Arincheva
Chief Accountant
Management Company Industrial Metallurgical Holding

22 August 2018

The accompanying notes are an integral part of the interim condensed consolidated financial information.

*(in million RR unless stated otherwise)*

| | | Six months ended | |
|---|---|---|---|
| | **Note** | **30 June 2018** | **30 June 2017** |
| Revenue | 18 | 43,184 | 43,435 |
| Cost of sales | 19 | (28,470) | (28,738) |
| **Gross profit** | | **14,714** | **14,697** |
| Distribution costs | 21 | (3,310) | (3,176) |
| General and administrative expenses | 22 | (3,344) | (2,950) |
| Taxes other than income tax | 20 | (523) | (380) |
| Other operating income, net | 23 | 395 | 39 |
| **Operating profit** | | **7,932** | **8,230** |
| Finance income | 24 | 632 | 1,159 |
| Finance expenses | 25 | (5,986) | (3,996) |
| **Profit before income tax** | | **2,578** | **5,393** |
| Income tax expense | 26 | (516) | (1,079) |
| **Profit for the period** | | **2,063** | **4,314** |
| **Profit/(Loss) is attributable to:** | | | |
| Equity holders of the Company | | 2,012 | 4,361 |
| Non-controlling interest | | 51 | (47) |
| **Profit for the period** | | **2,063** | **4,314** |
| | | | |
| **Other comprehensive income/(loss):** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising during the period | | 25 | (34) |
| Income tax relating to components of other comprehensive income/(loss) | | 32 | 1 |
| **Total other comprehensive income/(loss) for the period** | | **57** | **(33)** |
| | | | |
| **Total comprehensive income for the period** | | **2,120** | **4,281** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Equity holders of the Company | | 2,069 | 4,328 |
| Non-controlling interest | | 51 | (47) |
| **Total comprehensive income for the period** | | **2,120** | **4,281** |
| **Earnings per ordinary share for profit attributable to the shareholders of the Company, basic and diluted (in RR per share)** | 31 | **6.10** | **14.40** |

The accompanying notes are an integral part of the interim condensed consolidated financial information.

*(in million RR unless stated otherwise)*

| | Note | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **2,578** | **5,393** |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 19, 22 | 1,578 | 1,178 |
| Amortisation of intangible assets | 19 | 73 | 47 |
| Interest income | 24 | (601) | (510) |
| Interest expenses | 25 | 2,397 | 3,603 |
| Accrual of vacation reserve | | 94 | 100 |
| Reversal of obsolete stock provision | 23 | (5) | (18) |
| Accrual of bad debt provision | 23 | 2 | 29 |
| Exchange loss/(gain), net | 23, 24, 25 | 2,999 | (432) |
| Inventories surplus | | (15) | (105) |
| Dividend income | | (22) | (35) |
| Other effects | | 7 | (2) |
| **Operating cash flows before working capital changes** | | **9,085** | **9,248** |
| **Changes in working capital** | | | |
| Decrease/(Increase) in trade and other receivables | | 1,190 | (1,868) |
| Increase in inventories | | (307) | (393) |
| Increase/(Decrease) in trade and other payables | | 1,594 | (679) |
| Decrease in taxes other than income tax payable | | (23) | (216) |
| **Cash from operating activities** | | **11,539** | **6,092** |
| Income tax paid | | (987) | (1,238) |
| **Net cash from operating activities** | | **10,552** | **4,854** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (4,706) | (4,516) |
| Payment of capitalized interest | | (347) | (737) |
| Proceeds from sale of property, plant and equipment | | 18 | 8 |
| Acquisition of intangible assets | | (10) | (5) |
| Loans issued | | (5,166) | (540) |
| Repayment of loans issued | | 1,166 | 34 |
| Interest received on loans issued | | 117 | 93 |
| Dividend received | | 22 | 35 |
| **Net cash used in investing activities** | | **(8,906)** | **(5,628)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings and bonds issued | 15 | 5,220 | 54,158 |
| Repayment of borrowings and bonds | 15 | (2,043) | (48,687) |
| Interest paid on loans and borrowings | | (2,312) | (2,921) |
| Sale of treasury shares | 13 | 100 | - |
| Purchase of treasury shares | 13 | - | (11) |
| Purchase of non-controlling interest in subsidiaries | | (16) | - |
| **Net cash from financing activities** | | **949** | **2,539** |
| **Net increase in cash and cash equivalents** | | **2,595** | **1,765** |
| Effects of exchange rate changes on cash and cash equivalents | | 523 | 179 |
| **Net cash and cash equivalents at the beginning of the period, including** | | **8,978** | **4,534** |
| Cash and cash equivalents | | 8,978 | 4,534 |
| **Net cash and cash equivalents at the end of the period, including** | | **12,103** | **6,478** |
| Cash and cash equivalents | | 12,103 | 6,478 |

*(in million RR unless stated otherwise)*

| | Note | Share capital | Treasury shares | Currency translation reserve | Revaluation reserve | Retained earnings | Total attributable to equity holders of the Company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2016** | | **213** | **(6,033)** | **(110)** | **519** | **21,167** | **15,756** | **727** | **16,483** |
| Profit/(loss) for the period | | - | - | - | - | 4,361 | **4,361** | (47) | **4,314** |
| Other comprehensive loss for the period | | - | - | (33) | - | - | **(33)** | - | **(33)** |
| **Total comprehensive (loss)/income for the period** | | **-** | **-** | **(33)** | **-** | **4,361** | **4,328** | **(47)** | **4,281** |
| Purchase of non-controlling interest in subsidiaries, net | | - | - | - | - | (20) | **(20)** | 58 | **38** |
| Revaluation reserve written-off to retained earning | | - | - | - | (22) | 22 | **-** | - | **-** |
| Purchase of treasury shares | 13 | - | (11) | - | - | - | **(11)** | - | **(11)** |
| | | - | **(11)** | - | **(22)** | **2** | **(31)** | **58** | **27** |
| **Balance at 30 June 2017** | | **213** | **(6,044)** | **(143)** | **497** | **25,530** | **20,053** | **738** | **20,791** |
| | | | | | | | | | |
| **Balance at 31 December 2017** | | **213** | **(11)** | **(150)** | **476** | **25,619** | **26,147** | **711** | **26,858** |
| Profit for the period | | - | - | - | - | 2,012 | **2,012** | 51 | **2,063** |
| Other comprehensive income for the period | | - | - | 57 | - | - | **57** | - | **57** |
| **Total comprehensive income for the period** | | **-** | **-** | **57** | **-** | **2,012** | **2,069** | **51** | **2,120** |
| Purchase of non-controlling interest in subsidiaries, net | | - | - | - | - | 410 | **410** | (472) | **(62)** |
| Revaluation reserve written-off to retained earning | | - | - | - | (22) | 22 | **-** | - | **-** |
| | | - | - | - | **(22)** | **432** | **410** | **(472)** | **(62)** |
| **Balance at 30 June 2018** | | **213** | **(11)** | **(93)** | **454** | **28,063** | **28,626** | **290** | **28,916** |

The accompanying notes are an integral part of the interim condensed consolidated financial information.

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 1 General information about PAO Koks and its subsidiaries

PAO Koks (the "Company") was established as state-owned enterprise Kemerovski Koksokhimicheski Kombinat in 1924. It was incorporated as an open joint stock company on 30 July 1993 as part of Russia's privatisation programme. The legal form was changed from open joint-stock company to public joint-stock company on 23 June 2016 in accordance with the current legislation of the Russian Federation. The Company's registered office is located at 1st Stakhanovskaya street, 6, Kemerovo, Russian Federation, 650021.

The principal activities of PAO Koks and its subsidiaries' (jointly referred to as the "Group") include coal mining and the production of coke and coal concentrate, iron-ore concentrate, and pig iron, as well as the production of metal powder (high-purity chrome products). The Group's manufacturing facilities are primarily based in the city of Kemerovo, Kemerovo Region, and in the city of Tula, Tula Region, in the Russian Federation. Its products are sold in Russia as well as in other countries.

As at 30 June 2018 78.1% of the Company's total issued shares were ultimately owned by the following members of the Zubitskiy family: Evgeny B. Zubitskiy and Galina Z. Zubitskaya (as at 31 December 2017 94.12% of the Company's total issued shares were ultimately owned by the following members of the Zubitskiy family: Evgeny B. Zubitskiy, Andrey B. Zubitskiy and Galina Z. Zubitskaya).

The Group's main subsidiaries are:

| | | | | Percentage of voting shares held by the Group | |
|---|---|---|---|---|---|
| **Name** | **Country of incorporation** | **Type of activity** | **Note** | **30 June 2018** | **31 December 2017** |
| PAO Mill Berezovskaya | Russia | Production of coal concentrate | (1.1) | 98.7 % | 97.4 % |
| OOO Uchastok Koksoviy | Russia | Coal mining | | 100.0% | 100.0% |
| ZAO Sibirskie Resursy | Russia | Coal mining | | 100.0% | 100.0% |
| OOO Butovskaya mine | Russia | Coal mining | | 100.0% | 100.0% |
| OOO Tikhova mine | Russia | Coal mining | | 100.0% | 100.0% |
| PAO Tulachermet | Russia | Pig-iron production | (1.2) | 99.2% | 95.1% |
| AO Kombinat KMAruda | Russia | Mining and concentration of iron-ore | | 100.0% | 100.0% |
| AO Polema | Russia | Production of chrome | | 100.0% | 100.0% |
| AO Krontif-Centre | Russia | Production of cast-iron ware | | 100.0% | 100.0% |
| PTW Ltd. | China | Sales activities | | 100.0% | 100.0% |
| OOO Consultinvest 2000 | Russia | Lease of property | | 100.0% | 100.0% |
| OOO Management Company Industrial Metallurgical Holding | Russia | Management services | | 100.0% | 100.0% |
| OOO BKF Gorizont | Russia | Transactions with securities | | 100.0% | 100.0% |
| OOO Koks-Mining | Russia | Sales activities | | 100.0% | 100.0% |
| Koks Finance DAC | Ireland | Structured entity | | - | - |
| PKR Ltd | Korea | Sales activities | | 100.0% | 100.0% |
| IMH Finance DAC | Ireland | Issue of euro-commercial papers | | 100.0% | 100.0% |
| Polema (Qingdao) Import&Export Co., LTD | China | Sales activities | | 100.0% | 100.0% |

1.1 In January 2018 the Group purchased an additional 1.3% interest (1.3% of voting shares) in PAO Mill Berezovskaya. The consideration paid for these additional shares amounted to RR 6 million. As a result of this transaction the Group increased its share up to 98.7% (98.7% of voting shares).

1.2 In January 2018 the Group purchased an additional 4% interest (4.1% of voting shares) in PAO Tulachermet. The consideration paid for these additional shares amounted to RR 38 million. As a result of this transaction the Group increased its share up to 97.87% (99.2% of voting shares).

Since April 2017, management services for coal-mining and coal-processing subsidiaries of the Group are carried out by OOO Management Company Industrial Metallurgical Holding.

## 1 General information about PAO Koks and its subsidiaries (continued)

As at 30 June 2018 and 31 December 2017, the percentage of the Group's ownership interest in its subsidiaries was equal to the percentage of its voting interest, with exception of PAO Tulachermet, the percentage of the Group's ownership in which was 97.87% at 30 June 2018 and 93.87% at 31 December 2017.

## 2 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with IAS 34 "Interim financial reporting". The interim condensed consolidated financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

Each company of the Group registered in Russia maintains its own accounting records and prepares financial statements in accordance with the Russian accounting standards ("RAS"). The attached interim condensed consolidated financial information have been prepared using RAS records and reports that have been adjusted and re-classified in compliance with IFRS.

Each company of the Group registered outside Russia maintains its own accounting records and prepares financial statements in accordance with the local GAAP. The financial statements of companies outside Russia have been adjusted and reclassified in compliance with IFRS.

As at 30 June 2018, the official exchange rate set by the Central Bank of the Russian Federation for transactions denominated in foreign currencies was RR 62.7565 per 1 US dollar ("USD") (as at 31 December 2017: RR 57.6002 per 1 US dollar) and RR 72.9921 per 1 euro ("EUR") (as at 31 December 2017: RR 68.8668 per 1 euro).

## 3 Summary of significant accounting policies

The principal accounting policies and methods of computation followed by the Group and the critical accounting judgments in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017 with the exception of income tax expense, which is recognised based on management's best estimate of the annual effective income tax rate expected for the full financial year (which excludes the impact of deferred tax asset impairment which was recorded for the six months ended 30 June 2018 and 30 June 2017, see note 26).

### 3.1 Adoption of new or revised standards and interpretations

From 1 January 2018 the Group adopted IFRS 9 "Financial instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). New accounting policies implemented by the Group and related to IFRS 9 are as follows:

from 1 January 2018 the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income (former "available-for-sale financial assets");
- those to be measured subsequently at fair value through profit or loss (currently the Group has no such assets).

*Financial assets measured at amortised cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.

The Group measures cash and cash equivalents, trade and other financial receivables, non-current and current loans issued at amortised cost.

## 3 Summary of significant accounting policies (continued)

*Financial assets measured at fair value through other comprehensive income*

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income.

The Group subsequently measures all equity investments at fair value through other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of these investments.

As of 1 January 2018 assets classified as available-for-sale financial assets before IFRS 9 implementation were reclassified to the asset measured at fair value through other comprehensive income in the amount of RR 71 million. This reclassification does not have any impact on the Group's financial statements. Assets measured at fair value through other comprehensive income mainly include securities that are not quoted or traded on any exchange market and are presented in the interim condensed consolidated statement of financial position as other non-current assets.

From 1 January 2018 the Group applies expected credit losses model for its trade receivables, as permitted by IFRS 9 "Financial Instruments", which requires expected lifetime losses to be recognised from the date of initial recognition.

IFRS 9 "Financial instruments" have not had any material impact on the Group's financial liabilities. The key change is that the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss is presented in other comprehensive income. Group's financial liabilities consist of borrowings, trade and other payables and are carried at amortised cost using the effective interest method.

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2018 or later, which have not had a material impact on the Group's financial position or operations:

- IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018);
- Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28);
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The Group is considering the implications of the following amendments, the impact on the Group and the timing of their adoption by the Group:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021);

## 3 Summary of significant accounting policies (continued)

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019);
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

## 4 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the interim condensed consolidated financial information and estimates that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include the following:

### 4.1 Going concern

As at 30 June 2018, the Group’s current liabilities exceeded current assets by RR 655 million. The Group had undrawn borrowing facilities in the amount of RR 50,782 million (see note 15) as at 30 June 2018 (out of which RR 45,656 million are long-term facilities).

Management believes that the Group can meet its liquidity position and accordingly a going concern basis for the preparation of these interim condensed consolidated financial information is appropriate.

### 4.2 Estimated useful lives of property, plant, equipment and licences

The Group applies a range of useful lives to buildings, installations, plant and equipment, transport vehicles and other assets classified as property, plant and equipment. Significant judgement is required in estimating the useful lives of such assets. When determining economic life, assumptions that were valid at the time of estimation, may change when new information becomes available. Factors that could affect estimation include:

- changes in environmental and other legislation applicable to the Group’s operations;
- development of new technologies and equipment; and
- changes in the terms of licences.

The Group applies defined useful lives to intangible assets, which primarily include production licences. Significant judgement is required in estimating the useful lives of such assets. When determining economic life, assumptions that were valid at the time of estimation, may change when new information becomes available. Factors that could affect estimation include:

- changes in environmental and other legislation applicable to the Group’s operations;
- development of new technologies and equipment;
- changes in the terms of licences;
- plans and abilities of the Group to renew existing production licences.

## 4 Critical accounting estimates and judgements in applying accounting policies (continued)

### 4.3 Estimated fair value of financial liability

In 2015-2018, OOO Tulachermet-Stal, an entity under common control of the Group's owners, obtained bank loans under credit facilities, with the outstanding balance as of 30 June 2018 in the amount of RR 24,306 million. The balance in the amount of RR 2,862 million is payable by two installments in October 2018 and April 2019, and the rest of loan balance is payable by installments from October 2019 to April 2023. PAO Tulachermet together with OOO Stal and DILON Cooperatief U.A. (both companies are under common control of the Group's owners) entered into a number of agreements in connection with OOO Tulachermet-Stal's obligations under these loan facilities agreements. As a result, under these agreements, these entities have committed jointly and severally to finance OOO Tulachermet-Stal project funding shortfall, if any, in the amount of up to the outstanding debt under the loan facilities agreements.

The Group's management believes the fair value of financial obligations under these agreements is not significant as of 30 June 2018. Management based this judgement on an assessment of probability of compliance of OOO Tulachermet-Stal with all conditions established by the loan facilities agreements.

### 4.4 Estimation of expected credit losses on financial assets measured at amortised cost

The Group estimates expected credit losses for loans issued based on of the counterparty's credit risk in a way that reflects historical data, current conditions and forecasts of future economic conditions which are a reasonable approximation of current losses rates.

The Group's management believes that the amount of expected credit losses for loans issued to OOO Tulachermet-Stal is not significant as of 30 June 2018. Management based this judgment on the assessment of the probability of compliance of OOO Tulachermet-Stal with all its obligations taking into account that OOO Tulachermet-Stal is a company under common control.

### 4.5 Recognition of deferred tax asset

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimates based on taxable profits of the previous three years and expectations of future income that are believed to be reasonable under the circumstances.

## 5 Acquisition of assets

In June 2016, the Group contributed to the charter capital of OOO Gorny otdykh in the amount of RR 90 thousand. As a result of the transaction the Group got a share in the charter capital of OOO Gorny otdykh in the amount of 90%.

In October 2016 the Group bought 10% in the charter capital of OOO Gorny otdykh for RR 10 thousand, thus increased it's share in the charter capital of OOO Gorny otdykh to 100%.

The main asset of OOO Gorny otdykh is the hotel complex. Currently, the hotel complex is under reconstruction and modernization, operation activities are not conducted. Obligations and liabilities of OOO Gorny otdykh are represented by payables to suppliers and contractors.

The Group's management considers the transaction as an acquisition of assets and liabilities, rather than as a business combination in accordance with the definitions in IFRS 3 "Business combinations". The Group's management plans to use the hotel complex as a corporate recreation asset for the Group's employees and other corporate purposes. Also, the Group's management considers the possibility of providing part of the services of the hotel complex to the third parties. Thus, the Group's management does not consider the acquired assets as a cash generated unit in accordance with the definition in IAS 36 "Impairment of asset" and includes the value of the assets acquired to the carrying value of the Group's existing cash generated units for the purposes of assessing impairment indicators of the Group assets.

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 5 Acquisition of assets (continued)

At 30 June 2018 the Group recognised construction in progress amounted to RR 2,876 million, other assets in the amount of RR 177 million and liabilities in the amount of RR 12 million. Outstanding loans issued by the Group to OOO Gorny otdykh, in the amount of RR 1,165 million, and interest receivables in the amount of RR 120 million was eliminated in the Group financial statements as intragroup transactions.

## 6 Segment information

The Group operates as a vertically integrated business. The chief Executive Officer of OOO Management company Industrial Metallurgical Holding is considered to be the chief operating decision-maker ("CODM"). The CODM is responsible for decision-making, estimating results and distributing resources, relying on internal financial information prepared using IFRS principals. The Group's management has determined the following operating segments based on nature of production:

- Coal – coal mining;
- Coke – coke production;
- Ore & Pig iron – production of iron ore concentrate, pig iron, crushed pig iron and cast iron ware;
- Polema – production of powder metallurgy articles (chrome articles);
- Unallocated – include subsidiaries: OOO Management Company Industrial Metallurgical Holding, OOO Consultinvest 2000, OOO BKF Gorizont and acquisition of asset «OOO Gorny otdykh» (Note 5).

Inter-segment sales are generally composed of:

- Sales of coal to the Coke segment;
- Sales of coke to the Ore & Pig iron segment and;
- Management services rendered to the segments Coal, Coke, Ore & Pig iron and Polema segments.

Segment revenue and segment results include transfers between operating segments. Analysis of revenue generated from external sales by the products and services are included in Note 18.

The Group's management assess the performance of operating segments based on revenue, adjusted EBITDA, assets and liabilities.

| | **Coal** | **Coke** | **Ore & Pig iron** | **Polema** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|
| **Six months ended 30 June 2018** | | | | | | |
| Inter-segment revenue | 2,801 | 9,857 | 94 | 1 | 1,305 | **14,058** |
| External revenue | 2,858 | 9,581 | 29,608 | 1,030 | 107 | **43,184** |
| **Segment revenue, total** | **5,659** | **19,438** | **29,702** | **1,031** | **1,412** | **57,242** |
| **Adjusted EBITDA** | **2,010** | **2,107** | **4,739** | **30** | **138** | **9,024** |
| | | | | | | |
| **Six months ended 30 June 2017** | | | | | | |
| Inter-segment revenue | 3,301 | 10,809 | 79 | 1 | 894 | **15,084** |
| External revenue | 6,083 | 12,210 | 24,131 | 1,011 | - | **43,435** |
| **Segment revenue, total** | **9,384** | **23,019** | **24,210** | **1,012** | **894** | **58,519** |
| **Adjusted EBITDA** | **4,552** | **3,705** | **1,032** | **109** | **(119)** | **9,279** |

There are no reconciling items between external revenue of operating segments and total revenue in the interim condensed consolidated statement of profit or loss and other comprehensive income.

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 6 Segment information (continued)

The reconciliation between profit/(loss) before income tax and adjusted EBITDA by segments is as follows:

| | Coal | Coke | Ore & Pig iron | Polema | Unallo-cated | Total |
|---|---|---|---|---|---|---|
| **Six months ended 30 June 2018** | | | | | | |
| **(Loss)/Profit before income tax** | (45) | (1,733) | 4,307 | 19 | 30 | **2,578** |
| Amortisation and depreciation | 837 | 170 | 565 | 29 | 50 | **1,651** |
| Interest income | (4) | (36) | (540) | (10) | (11) | **(601)** |
| Inter-segment interest income | - | (789) | (202) | (6) | - | **(997)** |
| Interest expense | 185 | 1,714 | 490 | 8 | - | **2,397** |
| Inter-segment interest expense | 568 | - | 360 | - | 69 | **997** |
| Exchange loss/(gain), net | 469 | 2,781 | (241) | (10) | - | **2,999** |
| **Total adjusted EBITDA** | **2,010** | **2,107** | **4,739** | **30** | **138** | **9,024** |
| **Six months ended 30 June 2017** | | | | | | |
| **Profit/(Loss) before income tax** | 3,314 | 1,453 | 766 | 106 | (246) | **5,393** |
| Amortisation and depreciation | 505 | 152 | 527 | 26 | 15 | **1,225** |
| Interest income | (9) | (47) | (440) | (11) | (3) | **(510)** |
| Inter-segment interest income | - | (572) | (505) | (13) | - | **(1,090)** |
| Interest expense | 296 | 2,296 | 938 | 4 | 69 | **3,603** |
| Inter-segment interest expense | 642 | 258 | 144 | - | 46 | **1,090** |
| Exchange (gain)/loss, net | (196) | 165 | (398) | (3) | - | **(432)** |
| **Total adjusted EBITDA** | **4,552** | **3,705** | **1,032** | **109** | **(119)** | **9,279** |

Adjusted EBITDA analysed by the CODM is defined as profit before income tax adjusted for interest income, interest expense, depreciation, amortisation and impairment, any extraordinary gains and losses, and foreign exchange gains and losses.

### Segment assets and liabilities

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables, advances issued, loans issued, VAT recoverable and cash and cash equivalents.

Segment liabilities include accounts payable arising during operating activities, borrowings and interest payable.

Capital expenditures comprise additions to property, plant and equipment and intangible assets.

Segment assets and liabilities and capital expenditures are presented below:

| | Coal | Coke | Ore & Pig iron | Polema | Unallo-cated | Total |
|---|---|---|---|---|---|---|
| **At 30 June 2018** | | | | | | |
| Segment assets | 29,824 | 35,749 | 65,503 | 2,888 | 4,963 | **138,927** |
| Segment liabilities | 25,710 | 43,656 | 40,087 | 1,091 | 2,701 | **113,245** |
| Capital expenditures for the six months ended 30 June 2018 | 2,025 | 193 | 2,515 | 117 | 265 | **5,115** |
| **At 31 December 2017** | | | | | | |
| Segment assets | 29,243 | 32,963 | 56,679 | 2,362 | 4,636 | **125,883** |
| Segment liabilities | 24,812 | 39,370 | 35,016 | 572 | 2,296 | **102,066** |
| Capital expenditures for the six months ended 30 June 2017 | 3,909 | 164 | 1,398 | 60 | 222 | **5,753** |

The Group’s corporate assets are included in the Unallocated.

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 6 Segment information (continued)

The reconciliation between the assets of operating segments and total assets in the interim condensed consolidated statement of financial position is presented below:

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| **Segment assets** | **138,927** | **125,883** |
| **Items not included in segment assets:** | | |
| Goodwill | 4,497 | 4,497 |
| Deferred income tax asset | 2,240 | 1,604 |
| Other non-current assets | 108 | 115 |
| Elimination of inter-segment balances | (31,405) | (28,423) |
| **Total assets** | **114,367** | **103,676** |

The reconciliation between the liabilities of operating segments and total liabilities in the interim condensed consolidated statement of financial position is presented below:

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| **Segment liabilities** | **113,245** | **102,066** |
| **Items not included in segment liabilities:** | | |
| Provision for restoration liability | 74 | 71 |
| Deferred income tax liability | 2,008 | 1,682 |
| Taxes payable | 1,529 | 1,422 |
| Elimination of inter-segment balances | (31,405) | (28,423) |
| **Total liabilities** | **85,451** | **76,818** |

### Information about geographical areas

The following table presents revenues from external customers:

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| **Total sales:** | **43,184** | **43,435** |
| Russia | 12,927 | 16,219 |
| Switzerland | 25,890 | 20,726 |
| Kyrgyz Republic | 1,778 | - |
| Singapore | 780 | 767 |
| Belarus | 351 | 418 |
| Czech Republic | 319 | 1,716 |
| Poland | 308 | 307 |
| Germany | 253 | 119 |
| Ukraine | 162 | 2,399 |
| China | 120 | 72 |
| Korea | 110 | 116 |
| Taiwan | 92 | 111 |
| Japan | 25 | 68 |
| Kazakhstan | 16 | 18 |
| USA | 9 | 4 |
| England | 5 | 219 |
| Other | 39 | 156 |

For the six months ended 30 June 2018 revenue from the largest customer of the Group’s Coke and Ore & Pig Iron segments, which is related party, represented RR 25,755 million of the Group’s total revenues (for the six months ended 30 June 2017: RR 20,387 million).

The Group’s non-current assets (different from financial instruments and deferred income tax asset) located in the Russian Federation.

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 7 Property, plant and equipment

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| **Cost at the beginning of the period** | **77,838** | **66,871** |
| Additions | 5,105 | 5,748 |
| Disposals | (242) | (668) |
| **Cost at the end of the period** | **82,701** | **71,951** |
| | | |
| **Accumulated depreciation and impairment at the beginning of the period** | **(22,052)** | **(18,681)** |
| Depreciation charges | (1,920) | (1,446) |
| Accumulated depreciation and impairment related to disposals | 202 | 499 |
| **Accumulated depreciation and impairment at the end of the period** | **(23,770)** | **(19,628)** |
| | | |
| **Net book value at the beginning of the period** | **55,786** | **48,190** |
| **Net book value at the end of the period** | **58,931** | **52,323** |

In June 2017, as part of the investment program, the Group completed construction and performed industrial launch of S.D. Tikhova mine and the second stage of the Butovskaya mine, which will perform production activities at the Nikitinsky-2 section of the Nikitinsky coal field and the Butovsky-Zapadny and Chesnokovsky sections of the Kemerovo coal field, respectively. As a result of the launch, buildings and installations in amount of RR 10,438 million, plant and equipment in amount of RR 1,408 million, transport vehicles in amount of RR 17 million were put into operation.

During the six months ended 30 June 2018 depreciation expense of RR 1,431 million (six months ended 30 June 2017: RR 1,066 million) was included in cost of sales, a depreciation expense of RR 147 million (six months ended 30 June 2017: RR 112 million) was included in general and administrative expenses and depreciation expense of RR 342 million (six months ended 30 June 2017: RR 268 million) was capitalised.

Additions to property, plant and equipment during the six months ended 30 June 2018 include capitalised interest of RR 326 million (six months ended 30 June 2017: RR 703 million) and foreign exchange losses from financing activities in the amount of RR 21 million (six months ended 30 June 2017: RR 34 million) directly attributable to the qualifying assets. The capitalisation rate used to determine the amount of capitalised interest for the six months ended 30 June 2018 was 9,04% (six months ended 30 June 2017: 11.2% ).

## 8 Intangible assets

Movements of intangible assets are provided below:

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| **Cost as at the beginning of the period** | **7,620** | **7,606** |
| **Accumulated amortisation and impairment** | **(2,961)** | **(2,840)** |
| **Net book value as at the beginning of the period** | **4,659** | **4,766** |
| Additions | 10 | 5 |
| Amortisation charge | (73) | (47) |
| **Net book value at the end of the period** | **4,596** | **4,724** |
| **Cost as at the end of the period** | **7,630** | **7,611** |
| **Accumulated amortisation and impairment** | **(3,034)** | **(2,887)** |

## 9 Non-current loans issued and long-term interest receivable

| | At 30 June 2018 | Interest rate | At 31 December 2017 | Interest rate |
|---|---|---|---|---|
| Loans issued to related parties and denominated in Russian roubles, including interest accrued (note 27) | 15,204 | 8.50% - 10.50% | 10,342 | 10.5%-12.5% |
| Loans issued and denominated in Russian roubles, including interest accrued | 52 | 10.0% | 52 | 10.0% |
| **Total non-current loans issued** | **15,256** | | **10,394** | |

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 10 Inventories

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| Raw materials and supplies held for production purposes | 5,124 | 4,763 |
| Finished goods | 1,532 | 1,519 |
| Work in progress | 517 | 546 |
| **Total inventories** | **7,173** | **6,828** |

Raw materials and supplies held for production purposes are recorded at net realisable value, net of obsolete stock provision which amounted to RR 37 million as at 30 June 2018 (RR 42 million as at 31 December 2017).

## 11 Trade and other receivables and advances issued

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| Trade receivables (net of impairment amounting to RR 5 million as at 30 June 2018; RR 6 million as at 31 December 2017) | 1,516 | 1,526 |
| Trade receivables from related parties | 425 | 1,067 |
| Taxes receivable | 472 | 148 |
| Other accounts receivable (net of impairment amounting to RR 143 million as at 30 June 2018; RR 150 milion as at 31 December 2017) | 351 | 430 |
| Other accounts receivable from related parties | 2,864 | 3,049 |
| **Total trade and other receivables** | **5,628** | **6,220** |
| Advances issued | 501 | 369 |
| Less impairment | (2) | (3) |
| **Total advances issued** | **499** | **366** |

## 12 Cash and cash equivalents

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| RR bank deposits | 406 | 4,655 |
| Bank balances denominated in foreign currencies | 5,256 | 2,234 |
| Bank deposits in foreign currencies | 2,843 | 1,681 |
| RR denominated cash in hand and bank balances | 3,598 | 408 |
| **Total cash and cash equivalents** | **12,103** | **8,978** |

## 13 Share capital

As of 30 June 2018 and 31 December 2017 the Company's share capital (authorised, issued and paid in) totalled RR 213 million. The share capital consisted of 330,046,400 ordinary shares with a par value of RR 0.10 per share as of 30 June 2018 and 31 December 2017. As of 30 June 2018 and 31 December 2017 share capital included hyperinflationary adjustment totaling RR 180 million, which was calculated in accordance with the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and relates to the reporting periods prior to 1 January 2003.

In June 2010 the Group's subsidiary bought 26,000,278 of the Company's shares from its shareholders for RR 5,928 million. In July 2016, a subsidiary of the Group acquired 1,012,075 of the Company's shares for RR 105 million. In February 2017 the Company acquired 135,400 of its shares for RR 11 million. These shares are classified as treasury shares and deducted from equity at cost.

In November 2017 Evgeny B. Zubitskiy purchased 27,012,353 of the Company's shares from the subsidiary of the Group for RR 2,828 million. The loss from this transaction in the amount of RR 3,205 million is included in the Consolidated Statement of Changes in Equity. As of 30 June 2018 other accounts receivable related to this transaction equal to RR 2,728 million (31 December 2017: RR 2,828) (see note 27).

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 14 Retained earnings

The Company's Russian statutory financial statements serve as the basis for its profit distribution and other appropriations. Under Russian law, the basis of distribution is defined as a company's net profit. The net loss recognised in the Company's published Russian statutory financial statements for the six months ended 30 June 2018 was RR 1,412 million (for the six months ended 30 June 2017: net profit equaled RR 1,727 million) and the accumulated profit after dividends as at 30 June 2018 was equal to RR 11,838 million (31 December 2017: RR 13,250 million). However, legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose the amount for distributable reserves in the interim condensed consolidated financial information.

During the six months ended 30 June 2018 and 30 June 2017 no dividends were declared and paid.

## 15 Borrowings and bonds

### Short-term borrowings and current portion of long-term borrowings

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| RR denominated bank loans, fixed | 4,479 | 4,221 |
| RR denominated bank loans, variable | 523 | 654 |
| Other RR denominated borrowings, fixed | 4 | 4 |
| USD denominated bank loans, fixed | 2,286 | 1,752 |
| **Total short term borrowings and current portion of long-term borrowings** | **7,292** | **6,631** |

### Long-term borrowings

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| RR denominated bank loans, fixed | 17,929 | 14,326 |
| Other RR denominated borrowings, fixed | 770 | 270 |
| USD denominated bank loans, fixed | 5,360 | 5,655 |
| **Total long-term borrowings** | **24,059** | **20,251** |

As at 30 June 2018 the loans totaling RR 10,583 million were collaterised by property, plant and equipment in the carrying value of RR 3,116 million, part of these loans in the amount of RR 8,021 million was also collaterised by 100 percent of shares in OOO Tikhova mine and OOO Butovskaya mine (at 31 December 2017: the loans totaling RR 10,735 million were collaterised by property, plant and equipment in the carrying value of RR 2,475 million, part of these loans in the amount of RR 8,944 million was also collaterised by 100 % of shares in OOO Tikhova mine and OOO Butovskaya mine).

Borrowings of the Group are due for repayment as follows:

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| Borrowings to be repaid – within one year | 7,292 | 6,631 |
| – between one and five years | 22,623 | 18,998 |
| – after five years | 1,436 | 1,253 |
| **Total borrowings** | **31,351** | **26,882** |

As at 30 June 2018 the Group has the undrawn borrowing facilities in the amount of RR 50,782 million, including long-term facilities in amount of RR 45,656 million (as at 31 December 2017: RR 20,531 million, including long-term: RR 17,104 million).

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 15 Borrowings and bonds (continued)

Movements in borrowings are analysed as follows:

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| **Short-term borrowings:** | | |
| **Balance at the beginning of the period** | **6,631** | **22,467** |
| Borrowings received | - | 11,857 |
| Borrowings repaid | (1,387) | (30,481) |
| Reclassification of borrowings | 1,920 | 1,997 |
| Bank overdrafts received | 1,648 | 4,224 |
| Bank overdrafts repaid | (1,648) | (4,224) |
| Effect of changes in exchange rates | 128 | (359) |
| **Balance at the end of the period** | **7,292** | **5,481** |
| **Long-term borrowings:** | | |
| **Balance at the beginning of the period** | **20,251** | **16,457** |
| Borrowings received | 5,220 | 13,755 |
| Borrowings repaid | - | (10,209) |
| Other non-cash effects | (3) | - |
| Reclassification of borrowings | (1,920) | (1,997) |
| Effect of changes in exchange rates | 511 | (271) |
| **Balance at the end of the period** | **24,059** | **17,735** |

### Bonds

#### *Eurobonds*

On 23 June 2011, the Group issued 350,000,000 eurobonds for a total amount of USD 350 million at a coupon rate of 7.75% through its structured entity, Koks Finance Ltd. The coupons were payable semi-annually.

On 2 July 2015 the Group entered into an exchanged offer (the “Exchange Offer”) whereby the holders of the Existing Notes were given the opportunity to offer to exchange any or all of the Existing Notes for (i) loan participating notes to be issued by the Group (the “New Notes”); and (ii) the cash amount. As a result of the Exchange Offer, USD 150,845,000 7.75% loan participation notes due 2016, part of which were owned by the Group as the result of several transactions on sale and repurchase of eurobonds completed by the Group in 2011-2014, were cancelled, and new USD 136,496,000 10.75% loan participation notes due 2018 were issued. As part of this exchange, the bonds were partially repaid in the amount of USD 14,349,000. The Group owned USD 32,452,000 of new notes.

In March 2016 the Group entered into another exchange (the «Exchange Offer») whereby the holders of the Existing Notes were given the opportunity to offer to exchange any or all of the Existing Notes for (i) loan participating notes to be issued by the Group (the «New Notes»); and (ii) the cash amount. As a result of the Exchange Offer, USD 64,849,000 7.75% loan participation notes due 2016 were cancelled and new USD 64,849,000 10.75% loan participation notes due 2018 were issued.

On 23 June 2016 the Group repaid the five-year eurobond issue in the amount of USD 134,306,000 in full.

In 2016 the Group sold USD 32,452,000 new notes for the total consideration USD 28.9 million.

In January 2017 the Group repurchased 200,000 of 10.75% loan participation notes due 2018 for USD 198,000.

On 4 May 2017 the Group issued five-year maturity eurobonds for a total amount of USD 500 million at a coupon rate of 7.5% through its structured entity, Koks Finance DAC. The coupons are payable semi-annually. Within this issue and pursuant to the Tender Offer on 4 May 2017 the Group repaid USD 124,435,000 10.75% loan participation notes due 2018, including 200,000 of 10.75% loan participation notes owned by the Group as the result of repurchase.

In August, September, November and December 2017 the Group repurchased 11,999,000 of 7.5% loan participation notes due 2022 for USD 12,755,120.

In October and November 2017 the Group repurchased 8,500,000 of 10.75% loan participation notes due 2018 for USD 9,213,900.

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 15 Borrowings and bonds (continued)

In January, March, May and June 2018 the Group repurchased 2,400,000 of 10.75% loan participation notes due 2018 for USD 2,528,250.

In April, May and June 2018 the Group repurchased 7,963,000 of 7.5% loan participation notes due 2022 for USD 8,032,445.

As at 30 June 2018 the carrying value of 7.5% loan participation notes due 2022 amounted to RR 30,284 million (including the current portion of the bonds, which is equal to RR 395 million), net of transaction costs, and the carrying value of 10.75% loan participation notes due 2018 amounted to RR 4,035 million, net of transaction costs.

As at 31 December 2017, the carrying value of 7.5% loan participation notes due 2022 amounted to RR 28,237 million (including the current portion of the bonds, which is equal to RR 348 million), net of transaction costs, and the carrying value of 10.75% loan participation notes due 2018 amounted to RR 3,739 million, net of transaction costs.

***Euro-commercial papers***

In April 2016, the Group finalized the establishment of IMH Finance DAC ( Dublin, Ireland). The main activity of IMH Finance DAC is an issue of euro-commercial papers for the sole purpose of financing a loan to the Company.

On 18 May 2016 the Group completed a placement of USD 14,560,000 12% Discount Notes due 16 May 2017 through IMH Finance DAC as Series 1 under the Programme.

Interest shall accrue monthly based on the actual number of days elapsed and be payable together with the principal of the loan.

On 16 May 2017 the Group repaid USD 14,560,000 12% Discount Notes and interest accrued in full.

## 16 Trade and other payables

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| **Financial liabilities** | | |
| Trade accounts payables | 5,727 | 5,410 |
| Interest payable | 45 | 45 |
| Other accounts payable | 168 | 169 |
| **Total financial liabilities** | **5,940** | **5,624** |
| **Non-financial liabilities** | | |
| Wages and salaries payable | 1,606 | 1,540 |
| Advances received | 8,443 | 7,463 |
| **Total non-financial liabilities** | **10,049** | **9,003** |
| **Total trade and other payables** | **15,989** | **14,627** |

## 17 Other taxes payable

| | At 30 June 2018 | At 31 December 2017 |
|---|---|---|
| VAT | 788 | 732 |
| Contributions to the state pension and social insurance funds | 291 | 285 |
| Property tax | 140 | 148 |
| Individual income tax | 103 | 108 |
| Other taxes | 42 | 18 |
| **Total taxes other than income tax payable** | **1,364** | **1,291** |

The total statutory pension contributions for the six months ended 30 June 2018 included in all captions of the consolidated statement of profit or loss and other comprehensive income and capitalised to property, plant and equipment amounted to RR 1,332 million (six months ended 30 June 2017: RR 1,091 million), including portion in the amount of RR 38 million accrued on payment to key management (six months ended 30 June 2017: RR 49 million).

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 18 Revenue

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| **Sales in Russia:** | | |
| Sales of coal and coal concentrate | 2,322 | 6,556 |
| Sales of coke and coking products | 4,308 | 4,611 |
| Sales of pig iron | 3,163 | 2,394 |
| Sales of cast-iron ware | 787 | 889 |
| Sales of services | 1,259 | 680 |
| Sales of powder metallurgy products | 464 | 435 |
| Sales of iron ore concentrate | 105 | 86 |
| Sales of crushed pig iron | 6 | 6 |
| Sales of chrome | 108 | 103 |
| Other sales | 405 | 459 |
| **Total sales in Russia** | **12,927** | **16,219** |
| **Sales to other countries:** | | |
| Sales of pig iron | 24,359 | 19,533 |
| Sales of coke and coking products | 5,391 | 6,145 |
| Sales of coal and coal concentrate | - | 1,022 |
| Sales of chrome | 228 | 209 |
| Sales of powder metallurgy products | 151 | 183 |
| Sales of cast-iron ware | 53 | 50 |
| Other sales | 75 | 74 |
| **Total sales to other countries** | **30,257** | **27,216** |
| **Total revenues** | **43,184** | **43,435** |

## 19 Cost of sales

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Raw materials and supplies | 21,021 | 22,696 |
| Wages and salaries including associated taxes | 4,390 | 3,547 |
| Depreciation of property, plant and equipment | 1,431 | 1,066 |
| Energy | 704 | 635 |
| Other expenses | 659 | 580 |
| Amortisation of intangible assets | 73 | 47 |
| Other services | 155 | 142 |
| Changes in finished goods and work in progress | 37 | 25 |
| **Total of cost of sales** | **28,470** | **28,738** |

## 20 Taxes other than income tax

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Property tax | 292 | 170 |
| Mineral resources extraction tax | 124 | 112 |
| Land tax | 94 | 63 |
| Accrual of other taxes | 13 | 35 |
| **Total taxes other than income tax** | **523** | **380** |

## 21 Distribution costs

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Transportation services | 3,177 | 3,083 |
| Other selling expenses | 133 | 93 |
| **Total distribution costs** | **3,310** | **3,176** |

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 22 General and administrative expenses

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Wages and salaries including associated taxes | 2,264 | 2,041 |
| Other purchased services | 771 | 685 |
| Depreciation of property, plant and equipment | 147 | 112 |
| Materials | 126 | 79 |
| Other | 37 | 33 |
| **Total general and administrative expenses** | **3,344** | **2,950** |

## 23 Other operating income/(expenses), net

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Exchange gain, net | 559 | 176 |
| Dividend income | 22 | 35 |
| Reversal of obsolete stock provision | 5 | 18 |
| (Loss)/Gain on disposal of property, plant and equipment | (15) | 3 |
| Charity payments | (75) | (64) |
| Accrual of bad debt provision | (2) | (29) |
| Other | (99) | (100) |
| **Other operating income, net** | **395** | **39** |

## 24 Finance income

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Interest income | 601 | 510 |
| Financial foreign exchange gain on loans issued and on interest accrued on loans issued | 31 | 18 |
| Financial foreign exchange gain on loans received and on interest accrued on loans received | - | 631 |
| **Total finance income** | **632** | **1,159** |

## 25 Finance expenses

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Interest expense | 2,397 | 3,603 |
| Financial foreign exchange loss on  bond issued and on interest accrued on bonds issued | 2,943 | 393 |
| Financial foreign exchange loss on loans received and on interest accrued on loans received | 622 | - |
| Financial foreign exchange loss on deposits | 24 | - |
| **Total finance expenses** | **5,986** | **3,996** |

## 26 Income tax expense

Income tax expense recorded in the interim condensed consolidated statement of profit or loss comprises the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Current income tax expense | 793 | 1,086 |
| Impairment of deferred tax asset | 9 | 1 |
| Deferred income tax (benefit)/expense | (287) | (8) |
| **Income tax expense** | **515** | **1,079** |

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 26 Income tax expense (continued)

Income tax expense is accrued based on management's best estimates of annual effective income tax rate. The estimated effective income tax rate for the six months ended 30 June 2018 and 30 June 2017 is 20% (it excludes the impact of deferred tax asset impairment recorded in the reporting period).

## 27 Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Information about the parties who ultimately own and control the Company is disclosed in Note 1.

**Balances outstanding with related parties as of 30 June 2018:**

| | Companies under common control | Ultimate shareholders | Other related parties | Total |
|---|---|---|---|---|
| Non-current loans issued and long-term interest receivable | 15,204 | - | - | 15,204 |
| Trade receivables | 425 | - | - | 425 |
| Other accounts receivable | 136 | 2,728 | - | 2,864 |
| Advances issued | 119 | - | - | 119 |
| Current loans issued and interest receivable | 157 | - | - | 157 |
| Trade accounts payable | (178) | - | - | (178) |
| Short-term interest payable | (5) | - | - | (5) |
| Advances received | (7,532) | - | - | (7,532) |
| Short-term borrowings and current portion of long-term borrowings | (4) | - | - | (4) |
| Other accounts payable | (6) | - | - | (6) |

**Balances outstanding with related parties as of 31 December 2017:**

| | Companies under common control | Ultimate shareholders | Other related parties | Total |
|---|---|---|---|---|
| Non-current loans issued and long-term interest receivable | 10,342 | - | - | 10,342 |
| Trade receivables | 1,067 | - | - | 1,067 |
| Other accounts receivable | 221 | 2,828 | - | 3,049 |
| Advances issued | 29 | - | - | 29 |
| Current loans issued and interest receivable | 503 | - | - | 503 |
| Trade accounts payable | (66) | - | - | (66) |
| Short-term interest payable | (5) | - | - | (5) |
| Advances received | (6,855) | - | - | (6,855) |
| Short-term borrowings and current portion of long-term borrowings | (4) | - | - | (4) |

**Related party transactions for the six months ended 30 June 2018:**

| | Companies under common control | Ultimate shareholders | Other related parties | Total |
|---|---|---|---|---|
| **Sales in Russia:** | | | | |
| Sales of coal and coal concentrate | 2,322 | - | - | 2,322 |
| Sales of services | 1,141 | - | - | 1,141 |
| Other sales | 208 | - | - | 208 |
| Sales of cast-iron ware | 1 | - | - | 1 |
| **Sales to other countries:** | | | | |
| Sales of pig iron | 24,047 | - | - | 24,047 |
| Sales of coke and coking products | 1,708 | - | - | 1,708 |
| **Other income:** | | | | |
| Interest income | 513 | - | - | 513 |
| Dividends | 22 | - | - | 22 |
| Other operating income, net | 10 | - | - | 10 |
| **Purchase of goods and services:** | | | | |
| Transportation services | (2,018) | - | - | (2,018) |
| Purchase of raw materials and supplies | (752) | - | - | (752) |

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 27 Balances and transactions with related parties (continued)

### Related party transactions for the six months ended 30 June 2017:

| | Companies under common control | Ultimate shareholders | Other related parties | Total |
|---|---|---|---|---|
| **Sales in Russia:** | | | | |
| Sales of coal and coal concentrate | - | - | 593 | 593 |
| Sales of services | 463 | - | - | 463 |
| Other sales | 349 | - | 82 | 431 |
| Sales of cast-iron ware | 2 | - | - | 2 |
| **Sales to other countries:** | | | | |
| Sales of pig iron | 19,119 | - | - | 19,119 |
| Sales of coke and coking products | 1,268 | - | - | 1,268 |
| **Other income:** | | | | |
| Interest income | 424 | - | - | 424 |
| Dividends | 35 | - | - | 35 |
| **Purchase of goods and services:** | | | | |
| Transportation services | (1,191) | - | - | (1,191) |
| Purchase of raw materials and supplies | (911) | - | (210) | (1,121) |
| Other operating income/(expenses), net | (927) | - | - | (927) |
| Interest expense | - | (15) | - | (15) |

### Payments to key management personnel

Payments to key management personnel included in general and administrative expenses amounted to RR 359 million for the six months ended 30 June 2018 (RR 488 million for the six months ended 30 June 2017). All these payments are short-term employee benefits. The number of people to whom this compensation relates is 35 for the six months ended 30 June 2018 (29 for the six months ended 30 June 2017).

## 28 Financial instruments at fair value

The Group financial instruments are presented below:

| | Note | At 30 June 2018 | At 31 December 2017 |
|---|---|---|---|
| **Assets** | | | |
| ***Non-current:*** | | | |
| Non-current loans issued and long-term interest receivable | 9 | 15,256 | 10,394 |
| Other non-current accounts receivable | | 73 | 83 |
| Other financial assets | | 71 | 71 |
| ***Current:*** | | | |
| Trade and other accounts receivable | 11 | 5,156 | 6,072 |
| Current loans issued and short-term interest receivable | | 184 | 533 |
| Cash and cash equivalents | 12 | 12,103 | 8,978 |
| **Total carrying value** | | **32,843** | **26,131** |
| **Liabilities** | | | |
| ***Long-term:*** | | | |
| Long-term borrowings | 15 | 24,059 | 20,251 |
| Long-term bonds | 15 | 29,889 | 27,889 |
| Long-term lease obligation | | 114 | 106 |
| ***Short-term:*** | | | |
| Trade accounts payable | 16 | 5,727 | 5,410 |
| Interest payable | 16 | 45 | 45 |
| Other accounts payable | 16 | 168 | 169 |
| Short-term borrowings and current portion of long-term borrowings | 15 | 7,292 | 6,631 |
| Short-term bonds | 15 | 4,430 | 4,087 |
| Short-term lease obligation | | 66 | 51 |
| **Total carrying value** | | **71,790** | **64,639** |

*(in RR, tabular amounts in million RR unless stated otherwise)*

## 28 Financial instruments at fair value (continued)

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

**Financial assets carried at amortised cost**

The carrying amounts of cash and cash equivalents, trade and other financial receivables approximate fair values based on level 3 measurements.

The fair value of non-current and current loans issued carried at amortised cost was determined using valuation techniques based on Level 2 measurements as expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value of loans issued is presented in the following table.

| | 30 June 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Loans issued | 15,440 | 17,189 | 10,927 | 12,569 |

**Liabilities carried at amortised cost**

The fair value of the Group's Eurobonds as of 30 June 2018 was RR 36,322 million and was based on quoted market prices, which are Level 1 measurements.

The fair values of other long-term and short-term debt carried at amortised cost were determined using valuation techniques.

The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on Level 2 measurements as expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair values of term loans and bonds are presented in the following table.

| | 30 June 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Term loans | 31,351 | 31,684 | 26,882 | 27,058 |
| Bonds | 34,319 | 36,322 | 31,976 | 35,391 |
| **Total borrowings** | **65,670** | **68,006** | **58,858** | **62,449** |

## 29 Financial risks

The Group's risk management is based on determining risks to which the Group is exposed in the course of ordinary operations. The Group is exposed to the following major risks: (a) credit risk, (b) market risk (including foreign currency risk, interest rate risk), and (c) liquidity risk. Management works proactively to control and manage all opportunities, threats and risks arising in connection with the objectives of the Group's operations.

## 29 Financial risks (continued)

The interim condensed consolidated financial information do not include all the financial risk management information and disclosures (other than the changes in the Group's liquidity discussed in note 4) required in the annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017. There have been no significant changes in the risk management policies since 2017 year end.

## 30 Contingencies, commitments and operating risks

There were no significant changes to the operating environment, in which the Group operates, legal and tax risks the Group is subject for, environmental matters, insurance policies, licences compared to those, disclosed in the annual consolidated financial statements for the year ended 31 December 2017.

### Capital commitments

As at 30 June 2018 the amount of the Group's capital commitments was RR 1,576 million (at 31 December 2017: RR 1,661 million).

## 31 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal to the basic earnings per share.

Earnings per share are calculated as follows:

| | | Six months ended | |
|---|---|---|---|
| | **Note** | **30 June 2018** | **30 June 2017** |
| Profit for the period | | 2,012 | 4,361 |
| Weighted average number of ordinary shares in issue (millions of shares) | 13 | 329.91 | 302.92 |
| **Basic and diluted earnings per ordinary share (expressed in RR per share)** | | **6.10** | **14.40** |

## 32 Subsequent events

In July 2018 the Group repurchased 200,000 of 10.75% loan participation notes due 2018 for USD 206,500 and 11,138,000 of 7.5% loan participation notes due 2022 for USD 11 163,381.

In July 2018 Galina Z. Zubitskaya sold 80,771,700 of the Company's shares (24.47% of the Company's total issued shares) to OOO "TD "RUDA" (the company under common control).

In August 2018 the Group issued five year maturity bonds with a value of RR 5 billion (series BO-05 bonds). These bonds have an annual interest rate of 9.2%, payable every six months.