

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

**Unaudit Condensed Interim
Consolidated Financial Statements
for the nine months ended 30 September 2016**

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*Public Joint Stock Company “Kuzbasskaya Toplivnaya Company” (trading as “KTK”)
Consolidated Statement of Financial Position as at 30 September 2016*

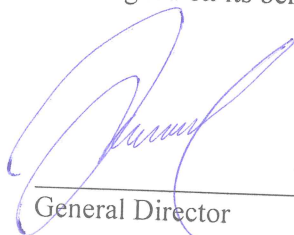
	Note	30 September 2016 Mln RUB	31 December 2015 Mln RUB
ASSETS			
Property, plant and equipment	12	12 771	12 316
Exploration and evaluation assets		63	42
Goodwill and intangible assets	13	119	21
Investments in equity accounted investees		5	5
Other investments		1	1
Deferred tax assets		371	422
Non-current assets		13 330	12 807
Inventories	14	1 950	2 225
Other investments		7	16
Income tax receivable		141	25
Trade and other receivables	15	2 971	3 018
Prepayments	16	449	269
Cash and cash equivalents	17	3 835	3 390
Current assets		9 353	8 943
Total assets		22 683	21 750

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 15.

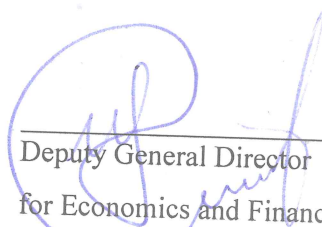
Public Joint Stock Company "Kuzbasskaya Toplivnaya Company" (trading as "KTK")
Consolidated Statement of Financial Position as at 30 September 2016

	Note	30 September 2016 Mln RUB	31 December 2015 Mln RUB
Equity			
Share capital		20	20
Additional paid-in capital		6 119	2 829
Retained earnings		2 829	6 271
Total equity attributable to equity holders of the Company		8 968	9 120
Non-controlling interest		2	(3)
Total equity		8 970	9 117
Liabilities			
Loans and borrowings	18	3 152	7 379
Deferred income/ revenue		194	193
Provisions		326	304
Retirement benefit liability		57	52
Concession agreement liabilities	13	99	-
Deferred tax liabilities		708	691
Non-current liabilities		4 536	8 619
Loans and borrowings	18	6 594	1 653
Trade and other payables	19	2 432	2 141
Net assets attributable to minority participants in LLC entities		132	158
Retirement benefit liability		14	14
Income tax payable		5	48
Current liabilities		9 177	4 014
Total liabilities		13 713	12 633
Total equity and liabilities		22 683	21 750

These consolidated financial statements were approved by management on 17 November 2016 and were signed on its behalf by:


 General Director

Eduard V. Alexeenko


 Deputy General Director
 for Economics and Finance
 Ivan A. Artemenko

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 15.

Public Joint Stock Company “Kuzbasskaya Toplivnaya Company” (trading as “KTK”)
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the nine months ended
30 September 2016

		Nine months ended	
		30 September	
	Note	2016	2015
		Mln RUB	Mln RUB
Revenue	5	18 269	17 676
Cost of sales	6	(16 435)	(14 735)
Gross profit		1 834	2 941
Distribution expenses	7	(933)	(918)
Administrative expenses	8	(790)	(833)
Other incomes and expenses, net	9	41	(74)
Profit from operating activities		152	1 116
Finance income	10	274	314
Finance costs	10	(583)	(908)
Lost from disposal of subsidiary		(2)	-
(Loss)/profit before income tax		(159)	522
Income tax expense	11	8	(388)
(Loss)/profit for the period		(151)	134
(Loss)/profit attributable to:			
Equity holders of the Company		(152)	148
Minority participants in LLC subsidiaries		(4)	(8)
Non-controlling interests		5	(6)
		(151)	134
Other comprehensive income for the period			
Items that are reclassified to profit or loss			
Losses on cash flow hedge reclassified to profit or loss, net of income tax		-	405
Total comprehensive (loss)/income for the period		(151)	539
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(152)	553
Minority participants in LLC subsidiaries		(4)	(8)
Non-controlling interests		5	(6)
		(151)	539
(Losses)/earnings per share			
Basic and diluted (losses)/earnings per share (RUB)		(1.53)	1.00

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 15.

*Public Joint Stock Company “Kuzbasskaya Toplivnaya Company” (trading as “KTK”)
Consolidated Statement of Changes in Equity for the nine months ended 30 September 2016*

Mln RUB

	Attributable to shareholders of the Company					Non-controlling interest	Total equity
	Share capital	Additional paid-in capital	Hedging reserve	Retained earnings	Total		
Balance at 1 January 2015	20	2 829	(405)	6 518	8 962	(4)	8 958
Profit for the period	-	-		148	148	(6)	142
Losses on cash flow hedge reclassified to profit or loss, net of income tax	-	-	405	-	405	-	405
Total comprehensive income for the period	-	-	405	148	553	(6)	547
Dividends	-	-	-	(248)	(248)	-	(248)
Balance at 30 September 2015	20	2 829	-	6 418	9 267	(10)	9 257
Balance at 1 January 2016	20	2 829	-	6 271	9 120	(3)	9 117
Loss for the period	-	-	-	(152)	(152)	5	(147)
Total comprehensive loss for the period	-	-	-	(152)	(152)	5	(147)
Balance at 30 September 2016	20	2 829	-	6 119	8 968	2	8 970

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 15.

*Public Joint Stock Company “Kuzbasskaya Toplivnaya Company” (trading as “KTK”)
Consolidated Statement of Cash Flows for the nine months ended 30 September 2016*

	Nine months ended 30 September 2016 Mln RUB	2015 Mln RUB
OPERATING ACTIVITIES		
(Loss)/profit for the period	(151)	134
<i>Adjustments for:</i>		
Depreciation and amortisation	1 112	912
Gain on disposal of property, plant and equipment	(127)	(73)
Net finance costs	309	594
Income tax expense	(8)	388
Cash flows from operating activities before changes in working capital and provisions	1 135	1 955
Changes in:		
- Inventories	275	(217)
- trade and other receivables	(58)	11
- prepayments for current assets	(180)	(124)
- trade and other payables	266	12
Cash flows from operating activities before income tax and interest paid	1 438	1 637
Income taxes paid	(90)	(274)
Interest paid	(543)	(534)
Interest received on cash and cash equivalents	73	286
Net cash flows from operating activities	878	1 115
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	139	73
Loans issued	(14)	(300)
Proceeds from loans issued	29	331
Acquisition of promissory notes	(20)	(101)
Proceeds from promissory notes	14	9
Acquisition of property, plant, equipment, intangible assets and exploration and evaluation assets	(1 479)	(501)
Cash flows used in investing activities	(1 331)	(489)
FINANCING ACTIVITIES		
Proceeds from borrowings	11 531	3 299
Repayment of borrowings	(10 003)	(5 751)
Income paid to minority participants in LLC entities	(22)	(8)
Dividends paid	-	(248)
Cash flows from/(used in) financing activities	1 506	(2 708)
Net increase/(decrease) in cash and cash equivalents	1 053	(2 082)
Cash and cash equivalents at the beginning of year	3 390	7 332
Effect of exchange rate fluctuations on cash and cash equivalents	(608)	672
Cash and cash equivalents at the end of the period	3 835	5 922

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 15.

1 Background

(a) Corporate information

The Public Joint Stock Company “Kuzbasskaya Toplivnaya Company” (“the Company” or “KTK”) registered under the Russian law on 4 April 2000. The shares of PJSC “KTK” are quoted on the PJSC Moscow Exchange since May 2010. The registered office of the Company is: 4, 50 Let Oktyabrya street, Kemerovo, 650000.

The Company’s ultimate controlling party is Mr. Igor Yuryevich Prokudin.

The Company together with its subsidiaries, whose structure and activities have not changed as from 31 December 2015, are referred to as “the Group”. The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

(b) Russian business environment

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

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of accounting

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), in compliance with the requirements of IAS 34 “Interim Financial Reporting”. It contains limited volume of financial information and is to be read in conjunction with the consolidated financial statements for the year ended 31 December 2015.

3 Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and all of its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, except where otherwise indicated.

4 Reportable segments

The Group determines and presents operating segments based on the information that internally is provided to the General director, who is the Group’s chief operating decision maker. The Company’s General director reviews operating results for purposes of assessing performance and making resource allocation decisions.

(i) Financial information

The segmented financial information is prepared and reported to general director at least quarterly. Management selected gross profit as the measure of the segment’s result.

For the nine months ended 30 September 2016

Mln RUB	Domestic sales of produced coal	Export sales of produced coal	Resale of purchased coal	Other operations	Total
Revenue	2 652	14 140	1 004	473	18 269
Cost of sales	(2 360)	(12 754)	(964)	(357)	(16 435)
Gross profit and segment result	292	1 386	40	116	1 834

Unallocated expenses

Other operating expenses	(1 682)
Net finance costs and loss from disposal of subsidiary	(311)
Loss before income tax	(159)

For the nine months ended 30 September 2015

Mln RUB	Domestic sales of produced coal	Export sales of produced coal	Resale of purchased coal	Other operations	Total
Revenue	2 874	13 093	1 259	450	17 676
Cost of sales	(2 451)	(10 825)	(1 118)	(341)	(14 735)
Gross profit and segment result	423	2 268	141	109	2 941

Unallocated expenses

Other operating expenses	(1 825)
Net finance costs	(594)
Loss before income tax	522

As at 30 September 2016

Trade receivables	594	1 236	209	79	2 118
Advances received	(53)	(3)	(18)	(2)	(76)

As at 31 December 2015

Trade receivables	545	1 228	230	91	2 094
Advances received	(16)	(197)	(13)	(7)	(233)

5 Revenue

Mln RUB	Nine months ended 30 September	
	2016	2015
Sales of coal	17 453	16 891
Compensation from the government	388	364
Sales of electrical and heat power and hot water	212	193
Provision of transportation services	95	97
Provision of storage services	21	29
Other revenue	100	102
	18 269	17 676

Compensation from government refers to amounts received from the local authorities as part of the consideration for coal sold to local municipalities and private individuals at regulated prices, and for services provided to private individuals at regulated tariffs. Such compensation is due to the Group in accordance with the Russian legislation.

6 Cost of sales

Mln RUB	Nine months ended 30 September	
	2016	2015
Railway tariff and transportation services	9 454	7 605
Fuel	1 381	1 395
Personnel costs	1 317	1 188
Depreciation and amortisation	1 030	830
Coal purchased	680	1 021
Repair and maintenance	577	662
Spare parts	571	649
Extraction, processing and coal sorting services	480	500
Other services	416	388
Mining and environmental taxes	251	237
Other materials	182	196
Other costs	19	9
Change in coal in stock and transit	77	55
	16 435	14 735

7 Distribution expenses

Mln RUB	Nine months ended 30 September	
	2016	2015
Personnel costs	407	369
Services	384	387
Depreciation and amortisation	66	66
Materials	52	71
Other distribution expenses	24	25
	933	918

8 Administrative expenses

Mln RUB	Nine months ended 30 September	
	2016	2015
Personnel costs	497	498
Services	128	118
Taxes other than income tax	98	141
Materials	17	22
Depreciation and amortisation	16	16
Other administrative expenses	34	38
	790	833

9 Other income and expenses

Mln RUB	Nine months ended 30 September	
	2016	2015
Gain on disposal of property, plant and equipment	127	73
Income from fines and penalties	13	6
Charity and welfare	(50)	(67)
Compensation for damage	(49)	(86)
	41	(74)

10 Finance income and finance costs

Mln RUB	Nine months ended 30 September	
	2016	2015
Interest income on cash and cash equivalents	73	286
Interest income on loans issued	1	28
Recovery of doubtful debts	116	-
Foreign exchange gain	84	-
Finance income	274	314
Interest expense and crediting charge	(544)	(515)
Foreign exchange loss	-	(300)
Allowance for doubtful debts	-	(55)
Unwinding of discount on provision for site restoration and on employee benefits	(29)	(28)
Unwinding of discount on long-term interest-free loans received	(10)	(10)
Finance costs	(583)	(908)
	(309)	(594)

11 Income tax expense

Income tax expense was calculated using expected average annual effective income tax rate for the current year.

Mln RUB	Nine months ended 30 September	
	2016	2015
Current year tax expense	22	334
Adjustment for prior years	(91)	(8)
Deferred tax expense	61	62
	(8)	388

12 Property, plant and equipment

Additions of Property, plant and equipment for the period amounted to RUB 1 581 million (for the nine months 2015: RUB 998 million). The depreciation charge for the period was RUB 1 104 million (for the nine months 2015: RUB 912 million). The additions mainly include vehicles purchased under production asset planned renewal program.

13 Goodwill and Intangible Assets

In the reporting period, the Group entered into concession agreements with two municipalities with validity periods of up to 2025 and 2032. Under these agreements, the Group received the right to charge consumers for utility services rendered using the transferred assets, and took the responsibility to carry out the reconstruction of the transferred infrastructure facilities. The book value of the intangible asset recognised as a result of having such a right, as of September 30, 2016, is RUB 98 million.

The fair value of liabilities under concession agreements on the recognition date was estimated as the present value of future costs for infrastructure reconstruction, discounted at a rate equivalent to the average rate of return on Russian government bonds with comparable maturities. At the date of recognition of liabilities, the average yields on these instruments amounted to 7.65%-8.4% per annum. The book value of concession obligations as of September 30, 2016, amounted to RUB 99 million.

14 Inventories

Mln RUB	30 September 2016	31 December 2015
Coal in stock	894	1 128
Coal in transit	557	400
Raw materials and consumables	499	697
	1 950	2 225

15 Trade and other receivables

Mln RUB	30 September 2016	31 December 2015
Trade receivables	2 903	2 994
Compensation receivable from budget	342	167
VAT receivable	328	527
Other receivables	169	302
Receivables from personnel	14	7
Allowance for doubtful debts	(785)	(979)
	2 971	3 018

16 Prepayments

Mln RUB	30 September 2016	31 December 2015
Advances given for transportation services	374	167
Advances given for inventory and other services	75	102
	449	269

17 Cash and cash equivalents

Mln RUB	30 September 2016	31 December 2015
Petty cash	5	2
Bank accounts	1 567	171
Term deposits	2 263	3 217
	3 835	3 390

18 Loans and borrowings

This note provides information about the Group’s interest-bearing loans and borrowings, which are measured at amortised cost. As at the reporting date the Group has no financial instruments measured at fair value.

Mln RUB	30 September 2016	31 December 2015
<i>Non-current liabilities</i>		
Secured bank loans	2 059	5 620
Unsecured bank loans	961	1 624
Loans from other companies	132	135
	3 152	7 379
<i>Current liabilities</i>		
Unsecured bank loans	4 663	1 145
Secured bank loans	1 881	465
Loans from other companies	18	17
Interest accrued	32	26
	6 594	1 653

19 Trade and other payables

Mln RUB	30 September 2016	31 December 2015
Trade payables	1 474	1 138
Payables to personnel	278	266
Taxes (other than income tax) payables	265	226
Payables for property, plant and equipment	218	77
Advances received	76	233
Payables for transportation services	16	61
Other payables	105	140
	2 432	2 141

20 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. Property, plant and equipment was revalued to determine the deemed cost as a part of transition to IFRSs as at 1 January 2006.

21 Significant accounting policies

The accounting policies applied in preparing of these condensed interim consolidated financial statements principally comply with the accounting policies applied for preparation of the consolidated financial statements for the year ended 31 December 2015, except statements represented in the sections (a), (b) below.

(a) Intangible Assets under Concession Agreements

The Group recognises an intangible asset arising from concluding a concession agreement on the provision of services, in the case of having a right to charge for usage of concession infrastructure, obtained in exchange for commitments on reconstruction of the infrastructure facility. An intangible asset represents remuneration for the provision of construction, upgrading or maintenance under a concession agreement on the provision of services, measured at fair value at initial recognition, taking into account the fair value of the services provided. Payments under a concession agreement represent an additional component of the cost of an intangible asset recognised in accordance with IFRS 38.

After initial recognition an intangible asset is carried at a cost including capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

The estimated useful life of an intangible asset under a concession agreement on the provision of services, is the period during which the Group may charge for the use of infrastructure and until the end of the concession period.

(b) New Standards and Interpretations

While preparing these financial statements the Group has applied the following new effective Amendments to current Standards:

- *Amendments to IAS 19 Employee Benefits relating to actuarial assumptions for the discount rate;*
- *Amendments to IAS 27 Separate Financial Statements providing the possibility of accounting for investments in subsidiaries, joint ventures and associates using the equity method in separate financial statements;*
- *Amendments to IAS 34 Interim Financial Reporting provide a possibility to disclose information ‘elsewhere in the interim financial report’ (outside of the notes). Under the changes, the disclosure of significant transactions and events can be presented in the notes to the interim financial report or any other section thereof, with the obligatory use of appropriate cross-references;*
- *Amendments to IFRS 11 Joint Arrangements that clarify the rules of accounting for acquisitions of interests in joint operations classified as a business;*
- *Amendments to IAS 16 Property, Plant and Equipment and IAS 38 - Intangible Assets contain clarifications of the acceptable methods of depreciation and amortization;*
- *Amendments to IAS 1 Presentation of Financial Statements make changes to disclosure of information in financial statements. The main purpose is encouraging the company to ensure that the requirements for presentation and disclosure in the financial statements have been carefully considered through the application of professional judgment;*
- *Amendments to investment institutions accounting, clarifying certain aspects of the application of IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosures of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures relating to general-nature exceptions for investment institutions;*
- *Amendments to following Standards approved by Annual Improvements to IFRSs 2012–2014 Cycle:*

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 7 Financial Instruments: Disclosures

The Amendments have not done any significant impact to the financial position of the Group.