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

Consolidated Financial Statements
and Independent Auditor’s Report
for the year ended 31 December 2018

PUBLIC JOINT STOCK COMPANY "KUZBASSKAYA TOPLIVNAYA COMPANY" (TRADING AS "KTK")

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PUBLIC JOINT STOCK COMPANY "KUZBASSKAYA TOPLIVNAYA COMPANY" (TRADING AS "KTK")

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint Stock Company "Kuzbasskaya toplivnaya company" and its subsidiaries (the "Group") as of 31 December 2018, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the applicable law, as well as the accounting and reporting regulations of jurisdictions in which the Group's companies are operating;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 18 February 2019.

On behalf of the Management:

_____	_____
Eduard V. Alexeenko	Andrey S. Berdnikov
General Director	Deputy General Director for Economics and Finance

Kemerovo, Russia

18 February 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Public Joint Stock Company "Kuzbasskaya toplivnaya company"

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Kuzbasskaya toplivnaya company" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Measurement of the allowance for expected credit losses The Group applies the simplified approach, permitted by IFRS 9 *"Financial instruments"* to measure the expected credit losses in respect of its trade receivables. We considered this issue to be a key audit matter due to the significance of trade receivables and the subjectivity of management's judgements in relation to the segmentation of trade receivables, and the determination of default events and provision rates. Refer to Note 28 to the consolidated financial statements.	We obtained an understanding of the Group's procedures related to the measurement of the allowance for the expected credit losses, in particular, the data collection process and designing of a provision matrix for the expected credit losses measurement by customers' portfolio, for collectively assessed balances. We also looked into the process for assessing the probability of default and loss in the case of a default for individually assessed balances. With respect to trade receivables assessed for impairment collectively, our procedures included an analysis of the correctness of customer segmentation based on the credit risk profile, and the reasonableness of the rates of expected credit losses applied, taking historical data and macroeconomic forecasts into account. With respect to trade receivables assessed for impairment individually, our procedures also included sample testing of trade receivables which have not been classified by management as in default. We have formed our own judgment as to whether such a classification is correct. We also analysed the adequacy of the estimated probability of default and expected losses in the case of a default, taking into account available information about the counterparty.
Fair value assessment of derivative financial instruments and the application of hedge accounting The Group applies hedge accounting to derivative financial instruments that are acquired for the purposes of cash flow hedging of highly probable forecast transactions related to sales of its products. We considered this issue to be a key audit matter as meeting the required criteria for hedge accounting, including the existence of the necessary documentation, requires the use of judgments, and due to the complexity of IFRS 9 requirements for hedge accounting.	We obtained an understanding of the Group's procedures and internal controls related to the identification, measurement and disclosure of hedge accounting transactions in the consolidated financial statements, and the assessment of the fair value of derivative financial instruments. We inspected hedging documentation prepared by management, including the assessment of hedge effectiveness for compliance with IFRS 9 requirements. We analysed designated hedged items and hedging instruments for compliance with IFRS 9 requirements. We also verified compliance with the requirements for the assessment of hedge effectiveness, and the measurement and recognition of the ineffective portion.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Moreover, the assessment of the fair value of derivative financial instruments is subject to estimation uncertainty. Refer to Note 20 to the consolidated financial statements.	Our procedures, aimed at verifying the completeness of recognised transactions with derivative financial instruments, included a reconciliation to the list of transactions confirmed by the counterparty. Our procedures to verify the fair value of instruments included a reconciliation of information from publicly available sources to assumptions, used by management to estimate the fair value, and the verification of the mathematical accuracy of calculations. We checked the completeness and adequacy of the disclosures included in the consolidated financial statements against the requirements of the applicable financial reporting standards.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 2 April 2018.

Other Information

Management is responsible for the other information. The other information comprises the Annual report and the Quarterly issuer's report, but does not include the financial statements and our auditor's report thereon. The Annual report and the Quarterly issuer's report are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report and the Quarterly issuer's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Yuliya Krasnova,
Engagement director

18 February 2019

PUBLIC JOINT STOCK COMPANY "KUZBASSKAYA TOPLIVNAYA COMPANY" (TRADING AS "KTK")

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

Mln RUB	Note	31 December 2018	31 December 2017
ASSETS			
Property, plant and equipment	16	14,441	13,089
Exploration and evaluation assets		126	103
Other non-current assets		170	183
Deferred tax assets	17	296	366
Non-current assets		**15,033**	**13,741**
Inventories	18	5,020	2,592
Trade and other receivables	19	5,523	3,535
Derivatives	20	469	111
Prepayments and deferred expenses	21	847	845
Cash and cash equivalents	22	16,823	5,430
Current assets		**28,682**	**12,513**
Total assets		**43,715**	**26,254**
Equity			
Share capital	23	20	20
Treasury shares	24	(16)	-
Additional paid-in capital		2,829	2,829
Hedging reserves	20	322	-
Retained earnings		13,262	8,366
Total equity attributable to equity holders of the Company		**16,417**	**11,215**
Non-controlling interest		1	1
Total equity		**16,418**	**11,216**
Liabilities			
Loans and borrowings	25	15,742	7,211
Provisions and other liabilities	26	569	584
Deferred tax liabilities	17	951	1,003
Non-current liabilities		**17,262**	**8,798**
Loans and borrowings	25	5,218	2,507
Trade and other payables	27	4,492	3,447
Provisions and other liabilities	26	259	175
Derivatives	20	66	111
Current liabilities		**10,035**	**6,240**
Total liabilities		**27,297**	**15,038**
Total equity and liabilities		**43,715**	**26,254**

Signed on 18 February 2019:

Eduard V. Alexeenko
General Director

Andrey S. Berdnikov
Deputy General Director
for Economics and Finance

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 11-54.

PUBLIC JOINT STOCK COMPANY "KUZBASSKAYA TOPLIVNAYA COMPANY" (TRADING AS "KTK")

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

Mln RUB	Note	2018	2017
Revenue	**8**	**68,479**	**38,662**
Cost of sales	9	(56,525)	(32,580)
Gross profit		**11,954**	**6,082**
Distribution expenses	10	(1,743)	(1,507)
Administrative expenses	11	(1,674)	(1,275)
Other income and expenses, net	12	(180)	(54)
Profit from operating activities		**8,357**	**3,246**
Finance income	14	408	221
Finance costs	14	(1,015)	(838)
Profit before income tax		**7,750**	**2,629**
Income tax expense	15	(1,727)	(525)
Profit for the year		**6,023**	**2,104**
Profit attributable to:			
Equity holders of the Company		5,984	2,093
Minority participants in LLC subsidiaries		39	11
Non-controlling interests		-	-
		6,023	**2,104**
Other comprehensive income / (loss)			
Items that will be reclassified to profit or loss:			
Effective portion of changes in fair value of cash-flow hedges, net of income tax		322	-
Items that will never be reclassified to profit or loss:			
Defined benefit plan actuarial loss, net of income tax		(17)	-
		6,328	**2,104**
Total comprehensive income attributable to:			
Equity holders of the Company		6,289	2,093
Minority participants in LLC subsidiaries		39	11
Non-controlling interests		-	-
		6,328	**2,104**
Earnings per share			
Basic and diluted earnings per share (RUB)		60.29	21.09

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 11 to 54.

PUBLIC JOINT STOCK COMPANY "KUZBASSKAYA TOPLIVNAYA COMPANY" (TRADING AS "KTK")

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to shareholders of the Company							
Mln RUB	**Note**	**Share capital**	**Treasury shares**	**Additional paid-in capital**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017		**20**	**-**	**2,829**	**-**	**6,869**	**9,718**	**1**	**9,719**
Profit for the year		-	-	-	-	2,093	2,093	-	2,093
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**2,093**	**2,093**	**-**	**2,093**
Dividends	23 (a)	-	-	-	-	(596)	(596)	-	(596)
Balance at 31 December 2017		**20**	**-**	**2,829**	**-**	**8,366**	**11,215**	**1**	**11,216**
Effect from application of IFRS 9, net of income tax	3 (a)(ii)	-	-	-	-	(78)	(78)	-	(78)
Balance at 1 January 2018		**20**	**-**	**2,829**	**-**	**8,288**	**11,137**	**1**	**11,138**
Profit for the year		-		-		5,984	5,984	-	5,984
Other comprehensive income/(loss) for the year, net of income tax		-	-	-	322	(17)	305	-	305
Total comprehensive income for the year		**-**	**-**	**-**	**322**	**5,967**	**6,289**	**-**	**6,289**
Treasury shares	23 (a)	-	(16)	-	-	-	(16)	-	(16)
Dividends	23 (a)	-	-	-	-	(993)	(993)	-	(993)
Balance at 31 December 2018		**20**	**(16)**	**2,829**	**322**	**13,262**	**16,417**	**1**	**16,418**

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 11 to 54.

PUBLIC JOINT STOCK COMPANY "KUZBASSKAYA TOPLIVNAYA COMPANY" (TRADING AS "KTK")

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

Mln RUB	Note	2018	2017
OPERATING ACTIVITIES			
Profit for the year		6,023	2,104
Adjustments for:			
Depreciation and amortisation	11,12,13	2,287	1,859
Gain on disposal of property, plant and equipment	12	(17)	(25)
Net finance costs	14	607	617
Income tax expense	15	1,727	525
Cash flows from operating activities before changes in working capital and provisions		**10,627**	**5,080**
Changes in:			
- inventories		(2,428)	(1,082)
- trade and other receivables		(1,679)	(568)
- prepayments for current assets		(2)	(136)
- trade and other payables		198	1,281
- provision for site restoration and employee benefits		(25)	7
Cash flows from operating activities before income tax and interest paid		**6,691**	**4,582**
Income taxes paid		(1,699)	(250)
Interest paid		(590)	(607)
Interest received on cash and cash equivalents		204	140
Net cash flows from operating activities		**4,606**	**3,865**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		109	68
Loans issued		(1)	(6)
Proceeds from loans issued		2	1
Proceeds from promissory notes		-	4
Acquisition of property, plant, equipment, intangible assets and exploration and evaluation assets		(3,838)	(2,310)
Cash flows used in investing activities		**(3,728)**	**(2,243)**
FINANCING ACTIVITIES			
Proceeds from borrowings	25	29,661	15,365
Repayment of borrowings	25	(19,628)	(14,693)
Income paid to minority participant in LLC entities		(9)	(12)
Dividends paid	23(a)	(993)	(596)
Treasury shares	23(a)	(16)	-
Cash flows from financing activities		**9,015**	**64**
Net increase in cash and cash equivalents		**9,893**	**1,686**
Cash and cash equivalents at the beginning of year		**5,430**	**3,837**
Effect of exchange rate fluctuations on cash and cash equivalents		1,500	(93)
Cash and cash equivalents at the end of year		**16,823**	**5,430**

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 11 to 54.

1. BACKGROUND

Corporate information and activities

Public Joint Stock Company "Kuzbasskaya Toplivnaya Company" (previously Open Joint Stock Company "Kuzbasskaya Toplivnaya Company", "the Company" or "KTK") and its subsidiaries (the "Group") comprise Russian joint stock companies, limited liability companies (as defined in the Civil Code of the Russian Federation), and companies located abroad.

The most significant subsidiaries of the Company are listed below:

	Country of incorporation	Principal activity	Ownership/voting share	
			31 December 2018	31 December 2017
KTK Polska Sp. z o.o.	Poland	Sale of coal	100%	100%
KTK Overseas AG	Switzerland	Sale of coal	100%	100%
LLC TEK Meret	Russia	Railroad transportation services	100%	100%
LLC Kuzbasstoplivosbyt	Russia	Sale of coal	100%	100%
JSC Kaskad Energo	Russia	Electricity and heat power generation	100%	100%
JSC ATK	Russia	Sale of coal	100%	100%
LLC Transugol	Russia	Sale of coal	100%	100%
LLC NTK	Russia	Sale of coal	51%	51%
LLC Kaskad Geo	Russia	Lands where production assets are located	100%	100%

The Company was registered under the Russian law on 4 April 2000. It's shares 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 Group's principal activities are the extraction of thermal coal from open-pit mines located in the territory of the Kemerovo region in the Russian Federation, wholesale supply of coal to customers in the Russian Federation as well as abroad, and retail sales of coal through its distribution networks located in the Kemerovo, Omsk, Novosibirsk, Altai regions and abroad in Poland.

Additionally, the Group is engaged in re-sale of coal purchased from other coal producers, electricity, heat power and hot water generation, storage and transportation services.

The Group's operations and results are highly dependent on demand in the domestic and export markets. Domestic and export coal markets are cyclical, supply and demand vary from year to year due to a large number of factors, including but not limited to the following:

- The state of the Russian and world economy;
- Demand and supply in local and international markets, as well as expectations regarding changes in supply and demand in the future;
- The growth or decline of the industry with a strong demand for thermal coals, such as energy generation and metallurgical plants;
- Abnormally warm or cold temperatures or other climatic conditions;
- Availability and prices for alternative fuels;
- Distance from the consumer, the availability and cost of transport; and
- Russian and international legislative regulation and taxation.

The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

Control relationships

As at 31 December 2018 and 31 December 2017, the Company was controlled by Haver Holding Limited, which is the immediate and ultimate parent company and owns 50.0727% of the Company's share capital. Mr. Igor Yurievich Prokudin is the Company's ultimate controlling party as at 31 December 2018 and 31 December 2017.

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 conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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.

Going concern

When assessing the ability to continue to operate in the foreseeable future, the Group has considered its financial position, expected future trading performance, its borrowings and other funds, as well as its capital expenditure commitments and other risks. After making appropriate enquiries, the Group concluded that it has sufficient resources to continue in operational existence for at least the next 12 months from the date of signing these consolidated financial statements. Therefore, the Group's management believes that it is appropriate to adopt the going concern basis in preparation of these consolidated financial statements.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The consolidated financial statements comply with Federal Law No. 208-FZ "On consolidated Financial Reporting", which provides the legal basis for certain entities for mandatory preparation of financial statements in accordance with IFRSs as issued by the IASB and subsequently endorsed for use in the Russian Federation. As at 31 December 2018, all currently effective standards and interpretations issued by the IASB have been endorsed for use in Russia.

3. NEW AND REVISED FINANCIAL REPORTING STANDARTS

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018. The Group applied IFRS *9 Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time in 2018.

(a) IFRS 9 Financial Instruments

The final version of the standard, issued in 2014, supersedes IAS 39 *Financial Instruments: Recognition and Measurement*, as well as all previous versions of IFRS 9. IFRS 9 brings together new requirements for classification, measurement and impairment of financial instruments, as well as for hedge accounting.

(i) Classification – Financial assets

IFRS 9 introduces a new approach to the classification and measurement of financial assets, reflecting the business model used to manage these assets and the characteristics of their associated cash flows.

IFRS 9 defines three main categories of financial assets: those that are measured at amortised cost, at fair value through other comprehensive income, and at fair value through profit or loss. The standard thus replaced the categories of financial assets established in IAS 39: held-to-maturity, loans and receivables and available-for-sale.

In accordance with IFRS 9, derivatives embedded in contracts in which the underlying contract is a financial asset within the scope of IFRS 9, are never separated from the underlying contract. Instead, the classification requirements of the standard apply to the entire hybrid financial instrument.

The Group estimates that the application of the new classification requirements for financial assets as at 1 January 2018 did not affect the accounting for derivatives, trade receivables and cash and cash equivalents.

(ii) Impairment – Financial assets and contract assets

In respect of the impairment, IFRS 9 replaces the incurred loss model used in IAS 39 to the expected credit loss model, in order to ensure the timeliness and completeness of recognition of losses on financial assets. Under the new standard, the reserve estimates were made based on the credit risk of counterparties.

The new impairment model is applied to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, as well as to contractual assets.

In accordance with IFRS 9, estimated reserves for expected credit losses are measured in one of the following ways:

- Based on 12-month expected credit losses. These are the expected credit losses that will arise as a result of defaults that are possible within 12 months after the reporting date.
- Based on expected credit losses over the entire period. These are expected credit losses arising from all possible defaults over the expected life of the financial instrument.

An estimate of expected credit losses over the entire period is applied if the credit risk of the financial asset at the reporting date has increased significantly since initial recognition. Otherwise, an estimate of the expected credit losses for 12 months after the reporting date is applied. However, an entity may assume that the credit risk of a financial instrument has not increased significantly since initial recognition if it is determined that the financial instrument has a low credit risk at the reporting date. However, for trade receivables and contractual assets that do not contain significant financing components, the estimation of expected credit losses over the entire period should always be applied. The Group has adopted the same approach as its accounting policies for trade receivables and contractual assets with significant financing components.

Expected credit losses were calculated on the basis of actual credit losses for the last two years. Counterparties were divided into groups based on the similarity of solvency characteristics and exposure to credit risk. Actual historical data on credit losses have been adjusted to take into account differences in economic conditions in the period for which historical data were collected, the current period and the economic conditions expected by the Group during the maturity of accounts receivable.

The effect of additional reserves with the effect on equity (without impact on net profit of 2017 and 2018) as of 1 January 2018 amounted to RUB 98 million (before deferred tax).

Mln RUB	**Estimated additional impairment recognised at 1 January 2018**
Trade and other receivables as at 31 December 2017	(98)
Gross additional impairment losses	**(98)**

	Estimated adjustment to equity at 1 January 2018
Decrease in retained earnings, net of income tax	(78)
Decrease in non-controlling interests	-
Decrease in equity	**(78)**

In accordance with IFRS 9, new impairment model is also applied to short-term deposits recognised within the cash and cash equivalents. The application of the new impairment model had no significant impact on the cash and cash equivalents.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the requirements of IAS 39 in terms of classification of financial liabilities. However, in accordance with IAS 39 all changes in fair value of financial liabilities classified as at fair value through profit or loss, are recognised in profit or loss, whereas in accordance with IFRS 9 these changes generally are recognised in the following order:

- The amount reflecting the change in the fair value of a financial liability due to changes in credit risk on such liability, is recognised in other comprehensive income;
- The remaining change in the fair value of the liability is recognised in profit or loss.

The classification of financial liabilities as at 1 January 2018 had no significant impact on the consolidated financial statements.

(iv) Hedge accounting

In the initial application of IFRS 9, the Group has the right to choose as its accounting policy the continued application of the requirements of IAS 39 in respect of hedge accounting instead of the requirements of IFRS 9. The group has decided to apply the new requirements established by IFRS 9.

In accordance with IFRS 9, the Group needs to ensure that the hedging relationships correspond to the Group's purposes and strategy in respect of risk management, and apply an approach to assessing hedge effectiveness that is in a greater degree focused on predictive and qualitative characteristics. IFRS 9 also introduces new requirements for "rebalancing" hedge relationships and a ban on voluntary termination of hedge accounting. According to a new hedging model, more risk management strategies, particularly those related to hedging the risk components (in addition to the currency risk) of a non-financial object, most likely, will meet the qualifying criteria for hedge accounting. The Group does not currently hedge such risk components.

The Group uses a number of derivative financial instruments (hedging instruments) to manage the risk of negative changes in the coal price indices, as well as the currency risk inherent for the expected cash flows from export sales in foreign currency.

With respect to the hedging instruments used, the Group applies hedging accounting for highly probable future operations (cash flow hedging). The effective portion of the change in the fair value of hedging instruments that meet the conditions defined for cash flow hedges, is recognised in other comprehensive income. Profit or loss attributable to the ineffective portion of the changes, is recognised in profit or loss when incurred. The amounts accumulated in the capital accounts, remain in other comprehensive income and are reclassified to profit or loss in the period in which the hedged item is recognised in profit or loss.

Hedge accounting is terminated prospectively if the hedge instrument has expired, or the instrument is sold or executed, or the hedge no longer meets the hedge accounting criteria. If the transaction is no longer expected, the accumulated profit or loss on the hedge instrument recognised in other comprehensive income is immediately recognised in profit or loss.

(v) Transition

The Group has taken advantage of the exemption allowing it not to recalculate comparative data for prior periods in respect of changes in classification and measurement (including impairment) of financial instruments. Differences between the previous carrying value of instruments and their carrying value in accordance with IFRS, 9 were recognised in retained earnings and capital reserves as at 1 January 2018.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduced a 5-step approach to revenue recognition, which is applicable to all sales contracts where control over goods or services is transferred to the customer. The new standard supersedes revenue recognition guidance included in IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations.

(i) Sales of coal

The core principle of IFRS 15 is that an entity should identify separate performance obligations and recognise revenue to depict the transfer of promised goods or services to customers. Performance obligation to transfer coal is satisfied when the control is transferred to the customer, which is consistent with IAS 18 requirements.

In certain contracts, the Group is obliged to provide services for the delivery of coal to a certain place after which the control of the goods is passed to the buyer. Under IFRS 15, revenue from rendering such delivery services is treated as a separate performance obligation, which should be recognised over period of time of service, not at the moment of control for coal transfer to the buyer, as recognised earlier under IAS 18.

Management assessed the potential impact of such contracts on the Group's performance, financial position and revenue disclosures as immaterial.

(ii) Revenue from rendering services

The Group provides utility services to businesses and individuals as well as transportation and coal storage services, and recognises revenue from the sale of services over time as services are provided in the amount of the consideration to which the Group expects to be entitled in exchange for those services. The services are provided to customers separately from the sale of goods at the prices for similar separate services.

An assessment performed by the Group indicates that the changes introduced by IFRS 15 do not have a significant impact on the recognition of revenue in the consolidated financial statements.

(c) Amendments to IFRSs effective after 2018

Description	Subject	Effective for annual periods beginning on or after	Anticipated effect on the consolidated financial statements
IFRS 16	Leases	1 January 2019	Assessment is in progress
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019	Assessment is in progress
IFRIC 23	Uncertainty over income tax treatments	1 January 2019	Assessment is in progress
Amendments to IAS 12	Income tax on dividends	1 January 2019	Assessment is in progress
Amendments to IAS 19	Plan amendment, curtailment and settlement	1 January 2019	Assessment is in progress
Amendments to IAS 23	Accounting of borrowing costs after the related assets is ready for its intended use or sale	1 January 2019	Assessment is in progress
Amendments to IFRS 3	Business combinations	1 January 2020	Assessment is in progress
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020	Assessment is in progress
Amendments of references to the Conceptual Framework for Financial reporting	References to and quotes from the Conceptual Framework for Financial reporting and IFRSs	1 January 2020	No effect
IFRS 17	Insurance contracts	1 January 2021	Assessment is in progress

IFRS 16 *Leases*

As at 31 December 2018, the new IFRS 16 *Leases* was not yet effective and the Group did not perform an earlier application of the standard.

IFRS 16 Leases becomes effective for annual reporting periods beginning on or after 1 January 2019, with early application permitted, provided IFRS 15 had been adopted, supersedes IAS 17 *Leases* and introduces a new approach to lease accounting which removes the classification of lease into operating and finance for the tenant and provides for the reflection of the assets and lease obligations.

As at 31 December 2018, the Group has non-cancellable operating lease commitments totalling RUB 1,163 million. IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 29.

An assessment performed by the Group indicates that these arrangements meet the definition of a lease under IFRS 16, and hence the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a material impact on the amounts recognised in the Group's consolidated financial statements, and the management is currently assessing the potential impact.

The Group will apply IFRS 16 using a modified retrospective approach: comparative information will not be restated, and the cumulative effect of the initial application of IFRS 16 will be reflected as an adjustment to opening retained earnings. It is not feasible to provide a reasonable estimate of the financial effect until management completes the review.

4. 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.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about critical judgements and significant areas of estimation uncertainty, which have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

- Note 6 (d)(vi) – Useful lives of property, plant and equipment;
- Note 8 – Recognition of revenue from sales of coal to a significant customer, when there is an agreement with the same customer to purchase a third party's coal;
- Note 20 – Derivative financial assets;
- Note 26 – Provisions and other liabilities;
- Note 28 (b)(i) – Credit risk;
- Note 30 – Contingencies.

Coal reserves estimates

Estimates of coal reserves are used to calculate future cash flows, site restoration provisions, depreciation of mining assets, unwinding of the discount for site restoration provisions and the related deferred income tax.

The estimates of coal reserves represent the quantity of coal planned for extraction, treatment and sale, which is at least sufficient to compensate total estimated costs, the carrying value of capital investments, and anticipated additional costs. The estimates are based on several assumptions as to the physical existence of coal reserves, future extraction and compensation factors, production costs and coal prices, and have been made on the basis of available reserve exploration data and other data. The Group undertakes revisions of the coal reserve estimates, which are confirmed by independent consulting mining engineers, as appropriate.

Although management's long-term mine plans exceed the remaining useful life of some of the mining licenses of the Group, the Group has a legal right to apply for the extension of the licenses for its existing mining resources. Management believes the assumption that licenses will be expanded in accordance with long-term coal extraction plans is reasonable. Expansion to other coal seams and to adjacent territories may be obtained based on the results of auctions. A delay in issuing or refusal to issue the necessary permits or licenses on the part of the competent authorities, as well as any other unfavourable change in state regulations, may lead to a substantial adjustment in plans for development and the acquisition of new licenses, which in turn may have a negative impact on the Group's financial position and performance.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

6. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in the Group`s equity.

(v) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following types of financial assets: loans and trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, term deposits and highly liquid investments that are subject to insignificant risk of changes in their fair value and that are convertible to a known amount of cash on demand.

Other

Other non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities of the Group are the following: loans and borrowings, bank overdrafts, trade and other payables.

(iii) Derivative financial instruments

The Group uses a number of derivative financial instruments (derivatives) to manage the risk of changes in coal prices, as well as currency risk.

Derivative financial instruments are initially carried at fair value; costs directly attributable to the transaction, are recognised in profit or loss when incurred. After initial recognition, derivative financial instruments are carried at fair value through profit or loss.

The Group defines certain derivatives as instruments for hedging highly probable future transactions (cash flow hedges). The effective portion of the change in the fair value of derivatives that meet the conditions defined for cash flow hedges, is recognised in other comprehensive income. Profit or loss attributable to the ineffective portion of the changes, is recognised in profit or loss when incurred. The amounts accumulated in the capital accounts, remain in other comprehensive income and are reclassified to profit or loss in the period in which the hedged item is recognised in profit or loss.

Hedge accounting is terminated prospectively if the hedge instrument has expired, or the instrument is sold or executed, or the hedge no longer meets the hedge accounting criteria. If the transaction is no longer expected, the accumulated profit or loss on the hedge instrument recognised in other comprehensive income, is immediately recognised in profit or loss.

Changes in the fair value of derivatives not determined to hedge cash flows are recognised in profit or loss.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs are capitalised if an asset takes a substantial period of time (not less than six months) to get ready for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" or "other expenses" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Mine development costs

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on development of mineral resources is capitalised and classified within the "Construction in progress" category of property, plant and equipment.
The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to works on mine development which are inseparable from the mine's landscape, as well as costs of development stripping. Other development costs are recognised in profit or loss as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to "Mining assets and mining structures" category of property, plant and equipment.

(iv) Stripping costs

Overburden and other mine waste materials are removed during the initial development of a mine site in order to access the mineral resource. This activity is referred to as development stripping for open-pit mines. The directly attributable costs of development stripping (inclusive of an allocation of relevant overhead expenditure) are capitalised as mine development costs within property, plant and equipment.

The costs of production stripping incurred in the current period are to be included in the cost of the inventory produced in the period when such costs were incurred; waste removal costs incurred in order to improve access to the ore that will be mined in future periods are capitalised and recognised as a non-current stripping activity asset.

The Group recognises a stripping activity asset if, and only if, all of the following are met:

- The Group can identify the component of the ore body for which access has been improved;
- The costs relating to the stripping activity associated with that component can be measured reliably;
- It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group.

After the initial recognition, a stripping activity asset shall be recognised at its cost less amortisation and impairment losses in the group of property, plant and equipment "Mining assets and mining structures". The asset is amortised using a unit of production method within each component of the ore body.

(v) Mining assets and mining structures

This category of property, plant and equipment comprises the following categories of capitalized costs, related to mines put into production use:

- Capitalised mine development expenditure, including stripping costs incurred during the construction phase;
- Stripping activity asset;
- Capitalised site restoration obligations;
- Cost of production mining licences.

(vi) Depreciation

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves under the Russian classification. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in the profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group, which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

- Buildings and other production structures – 9–80 years;
- Machinery, equipment and vehicles – 5–35 years;
- Fixtures and fittings – 3–11 years;
- Mining assets and mining structures – Pro rata to extraction volumes in relevant mines.

Based on current extraction volumes, average expected remaining useful life of mining assets and mining structures is approximately 30 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Exploration and evaluation expenditure

Exploration and evaluation assets include costs of acquisition of prospecting licenses, topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as "Exploration and evaluation assets". When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which is evidenced by a formalized development plan, the exploration and evaluation assets are reclassified within property, plant and equipment to "Construction in progress", where they form part of mine development costs.

(f) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(ii) Intangible Assets under Concession Agreement

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 capitalised borrowing costs, less accumulated amortisation 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.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(v) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(g) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Upon initial recognition asset held under finance is measured at the lower of its fair value and the present (discounted) value of the minimum lease payments. Subsequent to initial recognition, the accounting policy for the relevant classes of assets is applied.

Other leases are classified as operating leases, and the underlying assets are not recognised in the statement of financial position of the Group.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average basis, and includes acquisition, production or conversion costs and other costs incurred for bringing inventories to their existing location and condition. An appropriate proportion of production overheads, based on normal operating capacity, is included in cost of manufactured inventories and work in progress.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset that is not classified as a financial instrument at fair value through profit or loss is assessed for impairment at the end of each reporting period.

For a financial asset, the amount of impairment loss is calculated based on the expected credit loss model. The model takes into account the actual data on credit losses for the last two years for counterparties grouped by similarity of solvency characteristics and exposure to credit risk. Actual historical data on credit losses are adjusted to take into account differences in economic conditions in the period for which historical data were collected, the current period and the economic conditions expected by the Group during the maturity of receivables.

When impairment is recognised, the carrying amount of the financial asset is reduced by an allowance for doubtful accounts and impairment losses are recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss provided changes due to event occurring after the impairment was recognised, the previously recognised impairment losses are recovered and recognised in profit or loss for the period.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash-generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(j) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Long-term benefits

The Group is subject to certain defined benefit plans. Defined benefit plans are post-employment benefits plans under which the Group has a legal or constructive obligation to pay amounts in respect of those benefits, and thus makes direct payments to its employees. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method.

In accordance with this method, the Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits: mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc., as well as financial assumptions: discount rate, future salary and benefit levels, etc.

The Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. Any net actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognised as other comprehensive income.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed in course of land plot preparation, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred. Increases in provision due to subsequent disturbance of land plots in course of coal extraction are charged to cost of production of inventories.

(l) Net assets attributable to minority participants in LLC entities

If, according to charter documents of a limited liability company, a participant may unilaterally withdraw from such company, the company will be obliged to pay the withdrawing participant's share of net assets of the company for the year of withdrawal, in cash or, subject to consent of the participants, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of withdrawal.

Accordingly, the share capital and retained earnings of limited liability companies forming part of the Group which are attributable to minority participants and where the participants may unilaterally withdraw, are shown as net assets attributable to minority participants, and are presented as liabilities of the Group.

(m) Revenue

Revenue is recognised as promised goods or services are transferred to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for these goods or services. The Group applies a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with the customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when/as the Group satisfies a performance obligation.

The Group recognises revenue when or as the contractor's performance obligation is satisfied, i.e. when control over the goods or services underlying the particular performance obligation is transferred to the customer.

Certain coal sales are provisionally priced so that the price is not settled until a predetermined future date based on the market price at that time. Revenue from these transactions is initially recognised at the current market price. As at the reporting date, revenue is adjusted using the forward price for the period of settlement outlined in the contract.

If there are several performance obligations in one contract, and the price of separate obligations is not determined in the contract, the allocation of the price between the obligations is made based on the available data on the fair value of the price for the performance of separate obligations.

(i) Sale of coal

Revenue from coal sales is recognised at the moment when there is convincing evidence (usually having the form of an executed sales agreement) that the control of the goods is transferred to the customer, receipt of the compensation is likely to happen, while incurred costs and price adjustments due to the quality of coal can be measured reliably. Variable refunds in the form of discounts and price adjustments are assessed at the time of conclusion of the contract, and a limitation is applied to its valuation until the relevant uncertainty is resolved.

Usually the control over the goods is passed to the buyer at the time of shipment of coal from the warehouse or upon delivery at the certain point, in accordance with the terms of the contract, and at this time the Group performs its obligation to transfer the goods.

(ii) Revenue from rendering services

Revenue from rendering services comprises sales of electrical power, heat energy and hot water and sales of storage and transportation services.

Some sales contracts contain the Group's obligation to provide coal delivery services to the point determined by the customer. Revenue from such services is recognised over time as the services are provided. The stage of completion is estimated based on the costs already incurred and planned in order to complete the services.

Revenue from sales of power, heat energy and hot water is recognised on the delivery of electricity, heat and water and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(iii) Compensation from government

Compensation from government relates to retail sales of coal to the general public at fixed prices regulated by the government. The Group receives reimbursement from the state budget for the difference between the regulated price and actual cost of goods sold. Compensation from government is accrued when respective sales are made to the end customer.

For services provided at regulated tariffs compensation covers the losses resulting from the application of regulated tariffs for general public. Such compensations are recognised in profit or loss as revenue on a systematic basis in the same periods in which the expenses are recognised.

(n) Finance income and costs

Finance income and costs of the Group comprise:

- Interest income, including effect of discounting on financial assets and liabilities;
- Interest expense, including amortisation of discount on financial assets and liabilities;
- Net amount of gain or loss from revaluation of financial assets and liabilities denominated in foreign currency;
- Impairment loss recognised in regard of financial assets.

Interest income and expense are recognised using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, if any.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Group's General Director to make decisions about resources to be allocated to the segment and assess its performance.

(r) Contingent liabilities and assets

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed in the consolidated financial statements unless the outflow of funds is unlikely. A contingent asset is not recognised in the consolidated statement of financial position but is disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

7. REPORTABLE SEGMENTS

The Group has four reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the General Director, who is the Group's chief operating decision maker, reviews internal management reports. The following summary describes the operations in each of the Group's reportable segments:

- *Domestic sales of produced coal*. Includes distributing own coal production in Russia.
- *Export sales of produced coal.* Includes distributing own coal production in foreign countries.
- *Resale of purchased coal.* Includes distributing coal purchased for resale from other suppliers in Russia and foreign countries.
- *Other operations.* Includes providing different types of services such as transportation services, storage services, services to generating, transferring and distributing of electricity, heat power and hot water in Russia.

(i) Major customers

In 2018 the revenue from two customers represents more than 10% of the Group's total revenue, amounting to RUB 17,715 million (2017: RUB 13,200 million) and RUB 17,656 million (2017: RUB 4,716 million), respectively.

(ii) Geographical information

The Group operates in three principal geographical areas: Russia, European Union and Asia, such division has been based on the geographic location of Groups' customers.

	Revenue		Trade receivables		Advances received	
Mln RUB	**2018**	**2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Russia	8,015	7,085	1,313	1,058	34	30
European Union	36,287	12,173	2,018	749	97	91
Asia	24,177	19,404	698	624	14	26
Total	**68,479**	**38,662**	**4,029**	**2,431**	**145**	**147**

(iii) Financial information

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

2018

Mln RUB	Domestic sales of produced coal	Export sales of produced coal	Resale of purchased coal	Other operations	Total
Revenue	5,278	49,942	12,093	1,166	68,479
Cost of sales	(5,036)	(39,819)	(10,639)	(1,031)	(56,525)
Gross profit and segment result	**242**	**10,123**	**1,454**	**135**	**11,954**
Unallocated expenses					
Other operating expenses					(3,597)
Net finance costs					(607)
Profit before income tax					**7,750**

2017

Mln RUB	Domestic sales of produced coal	Export sales of produced coal	Resale of purchased coal	Other operations	Total
Revenue	4,536	30,416	2,440	1,270	38,662
Cost of sales	(3,967)	(25,293)	(2,369)	(951)	(32,580)
Gross profit and segment result	**569**	**5,123**	**71**	**319**	**6,082**
Unallocated expenses					
Other operating expenses					(2,836)
Net finance costs					(617)
Profit before income tax					**2,629**

As at 31 December 2018:

Mln RUB	Domestic sales of produced coal	Export sales of produced coal	Resale of purchased coal	Other operations	Total
Trade receivables	856	2,245	727	201	4,029
Advances received	(18)	(98)	(26)	(3)	(145)

As at 31 December 2017:

Trade receivables	696	1,322	247	166	2,431
Advances received	(23)	(113)	(11)	-	(147)

8. REVENUE

Mln RUB	2018	2017
Sales of coal	66,490	36,712
Compensation from the government	953	798
Sales of electrical and heat power and hot water	607	554
Provision of transportation and storage services	259	462
Other revenue	170	136
	68,479	**38,662**

Revenue from sales of coal for 2018 include sales to one customer (trader), with whom several different agreements were concluded by the Group, including the agreement for third-party coal purchase from this trader for the total amount of RUB 7,578 million. Management of the Group performed an analysis and concluded that IAS 15 criteria are met in relation to sales of own and purchased coal to the trader.

Negative effect in the amount of RUB 959 million (2017: RUB 55 million) for completed hedging of the coal price index, in which commodity swaps and forwards act as a hedging instrument (see notes 20 and 28), is included in the revenue from coal sales during the reporting period.

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.

9. COST OF SALES

Mln RUB	2018	2017
Railway tariff and transportation services	24,832	17,211
Coal purchased	11,570	2,118
Extraction, processing and coal sorting services	5,837	3,358
Coal handling at the port	4,628	1,239
Fuel	2,721	2,132
Personnel costs	2,657	2,069
Depreciation and amortisation	2,182	1,754
Repair and maintenance	1,064	1,121
Other services	998	792
Spare parts	965	803
Mining and environmental taxes	608	460
Other materials	424	331
Other costs	35	40
Change in provision for site restoration	(14)	22
Change in coal in stock and transit	(1,982)	(870)
	56,525	**32,580**

10. DISTRIBUTION EXPENSES

Mln RUB	2018	2017
Personnel costs	735	585
Services	727	710
Materials	140	89
Depreciation and amortisation	82	82
Other distribution expenses	59	41
	1,743	**1,507**

11. ADMINISTRATIVE EXPENSES

Mln RUB	2018	2017
Personnel costs	1,187	833
Services	184	186
Taxes other than income tax	173	130
Materials	29	29
Depreciation and amortisation	23	23
Other administrative expenses	78	74
	1,674	**1,275**

12. OTHER INCOMES AND EXPENSES

Mln RUB	2018	2017
Recalculation of property tax for prior years	-	65
Gain on disposal of inventories	19	10
Gain on disposal of property, plant and equipment	17	25
Write-off of an overcharged obligation to recover damages	5	15
Expenses from fines and penalties	(89)	(58)
Charity and welfare	(132)	(111)
	(180)	**(54)**

During 2018, inventories (besides coal) with total cost of RUB 978 million were disposed (2017: RUB 430 million).

13. PERSONNEL COSTS

Mln RUB	2018	2017
Wages, salaries and other payments to personnel	3,642	2,732
Social charges	937	755
	4,579	**3,487**

14. FINANCE INCOME AND FINANCE COST

Mln RUB	2018	2017
Interest income on cash and cash equivalents	204	140
Forex exchange gain	200	78
Interest income on loans issued	4	3
Finance income	408	221
Interest expense	(581)	(592)
Loss on transactions with other derivative financial instruments	(184)	-
Loss on currency hedging transactions	(119)	-
Allowance for doubtful debts	(72)	(186)
Unwinding of discount on provision for site restoration and on employee benefits	(46)	(46)
Unwinding of discount on long-term interest-free loans received	(13)	(14)
Finance costs	(1,015)	(838)
Finance income and costs, net	**(607)**	**(617)**

15. INCOME TAX EXPENSE

The Group's companies, except the Polish subsidiary, are residents of Russian Federation in purpose of income tax payment. The applied income tax rate for those companies is 20% (2017: 20%). The income tax rate for the Polish subsidiary is 19% (2017: 19%).

Mln RUB	2018	2017
Current tax expense		
Current year	(1,780)	(531)
Adjustment for prior years	14	79
	(1,766)	**(452)**
Deferred tax expense		
Origination and reversal of temporary differences	39	(73)
	(1,727)	**(525)**

Reconciliation of effective tax rate:

	2018 Mln RUB	%	2017 Mln RUB	%
Profit before income tax	7,750	100	2,629	100
Income tax at applicable tax rate	(1,550)	(20)	(526)	(20)
Effect of income tax rates in foreign jurisdictions	5	-	5	-
Effect of tax losses for which no deferred tax asset was recognized	(69)	(1)	-	-
Non-deductible expenses effect	(127)	(2)	(83)	(3)
Adjustment for prior years	14	-	79	3
	(1,727)	**(23)**	**(525)**	**(20)**

(a) Income tax recognised in other comprehensive income

	2018			2017		
Mln RUB	**Before tax**	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Defined benefit plan actuarial (loss)/gain	(21)	4	(17)	-	-	-
Effective portion of changes in fair value of cash-flow hedges	403	(81)	322	-	-	-
	382	**(77)**	**3055**	**-**	**-**	**-**

16. PROPERTY, PLANT AND EQUIPMENT

Depreciation expense has been charged to cost of sales, distribution and administrative expenses according to functionality of the fixed assets. The allocation of depreciation charge is presented in the table below:

Mln RUB	2018	2017
Cost of sales	2,166	1,737
Distribution expenses	81	81
Administrative expenses	22	23
	2,269	**1,841**

Additions to property, plant and equipment in the reporting year include RUB 12 million interest expenses (2017: RUB 7 million). The average capitalization rate was 5.01% (2017: 6.28%).

As at 31 December 2018, fixed assets with a carrying amount of RUB 2,899 million (31 December 2017: RUB 2,081 million) were pledged to secure bank loans. The respective amount of secured bank loans is disclosed in note 25.

Construction in progress at 31 December 2018 is RUB 1,091 million (31 December 2017: RUB 439 million) and includes mainly the cost of projects of modernisation and equipment of coal preparation facilities at the operating fields of the Group. Also, as at 31 December 2018, three units of large-scale mining equipment were not commissioned, the installation of which will be completed in January 2019.

(a) Impairment

The non-current assets of the Group are tested for impairment at each reporting date if there are indicators of impairment for the corresponding cash-generating units. As at 31 December 2018 and 31 December 2017 the Group had no indicators of possible non-current asset's impairment.

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Cost / deemed cost								
Balance at 1 January 2017	6,013	1,432	4,077	9,408	97	139	6	21,172
Reclassification	(832)	-	(6)	838	-	-	-	-
Additions	18	107	-	615	15	1,486	123	2,364
Transfers	31	-	21	1,131	4	(1,185)	(2)	-
Disposals	(29)	-	(7)	(434)	(2)	(1)	-	(473)
Balance at 31 December 2017	**5,201**	**1,539**	**4,085**	**11,558**	**114**	**439**	**127**	**23,063**
Additions	46	63	2	704	9	2,731	162	3,717
Transfers	254	-	327	1,613	2	(2,079)	(117)	-
Disposals	(11)	(107)	(8)	(561)	(7)	-	-	(694)
Balance at 31 December 2018	**5,490**	**1,495**	**4,406**	**13,314**	**118**	**1,091**	**172**	**26,086**

In the 2017, based on the results of the component accounting analysis, the Group reclassified historical cost and accumulated depreciation of certain objects from the "Land and buildings" group to "Other production facilities" and "Machinery, equipment, transportation" groups.

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Depreciation and impairment losses								
Balance at 1 January 2017	(1,384)	(245)	(1,624)	(5,246)	(57)	-	-	(8,556)
Reclassification	182	-	1	(183)	-	-	-	-
Depreciation charge	(207)	(34)	(176)	(1,421)	(10)	-	-	(1,848)
Disposals	11	-	5	412	2	-	-	430
Balance at 31 December 2017	**(1,398)**	**(279)**	**(1,794)**	**(6,438)**	**(65)**	**-**	**-**	**(9,974)**
Depreciation charge	(284)	(156)	(176)	(1,644)	(13)	-	-	(2,273)
Disposals	1	107	3	486	5	-	-	602
Balance at 31 December 2018	**(1,681)**	**(328)**	**(1,967)**	**(7,596)**	**(73)**	**-**	**-**	**(11,645)**
Net book value								
At 1 January 2017	**4,629**	**1,187**	**2,453**	**4,162**	**40**	**139**	**6**	**12,616**
At 31 December 2017	**3,803**	**1,260**	**2,291**	**5,120**	**49**	**439**	**127**	**13,089**
At 31 December 2018	**3,809**	**1,167**	**2,439**	**5,718**	**45**	**1,091**	**172**	**14,441**

17. DEFERRED TAX ASSETS AND LIABILITIES

(a) Unrecognised deferred tax liabilities for investments in subsidiaries

As at 31 December 2018, the Group has not recognised a deferred tax liability in respect to the temporary differences relating to investments in subsidiaries, because management believes all such differences will not be realised in the foreseeable future. The amount of these differences is RUB 1,305 million (31 December 2017: RUB 1,085 million).

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities recognised for differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are attributable to the following:

	Assets		Liabilities		Net balance	
Mln RUB	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Property, plant and equipment	47	45	(1,045)	(1,064)	(998)	(1,019)
Intangible assets	-	-	(26)	(27)	(26)	(27)
Inventories	82	14	(191)	(149)	(109)	(135)
Trade and other receivables	254	308	(159)	(133)	95	175
Trade and other payables	213	56	-	(12)	213	44
Loans and borrowings	-	-	(28)	(30)	(28)	(30)
Provisions and other liabilities	134	122	-	-	134	122
Tax losses carry-forwards	108	233	-	-	108	233
Derivatives	37	-	(81)	-	(44)	-
Deferred tax assets / (liabilities)	**875**	**778**	**(1,530)**	**(1,415)**	**(655)**	**(637)**
Tax set-off	(579)	(412)	579	412	-	-
Net tax assets / (liabilities)	**296**	**366**	**(951)**	**(1,003)**	**(655)**	**(637)**

(c) Movement in deferred tax assets and liabilities

	1 January 2017	Recognised in profit or loss	Recognised in other compre-hensive income	31 December 2017	Recognised in profit or loss	Other	Recognised in other compre-hensive income	31 December 2018
Property, plant and equipment	(951)	(68)	-	(1,019)	21	-	-	(998)
Intangible assets	(14)	(13)	-	(27)	1	-	-	(26)
Inventories	(48)	(87)	-	(135)	26	-	-	(109)
Trade and other receivables	101	74	-	175	(100)	20	-	95
Trade and other payables	34	10	-	44	169	-	-	213
Loans and borrowings	(33)	3	-	(30)	2	-	-	(28)
Provisions and other liabilities	138	(16)	-	122	8	-	4	134
Tax loss carry-forwards	209	24	-	233	(125)	-	-	108
Derivatives	-	-	-	-	37		(81)	(44)
	(564)	**(73)**	**-**	**(637)**	**39**	**20**	**(77)**	**(655)**

18. INVENTORIES

Mln RUB	31 December 2018	31 December 2017
Coal in stock	2,836	1,229
Coal in transit	946	571
Raw materials and consumables	1,238	792
	5,020	**2,592**

19. TRADE AND OTHER RECEIVABLES

Mln RUB	31 December 2018	31 December 2017
Trade receivables	5,194	3,420
VAT receivable	1,167	698
Other receivables	166	141
Compensation receivable from budget	104	229
Income tax receivable	49	25
Receivables from personnel	4	6
Other financial assets	4	5
Expected credit losses in respect of Trade and other receivables	(1,165)	(989)
	5,523	**3,535**

The Group's exposure to credit and currency risk and expected credit losses for trade and other receivables are disclosed in note 28.

20. DERIVATIVES

	31 December 2018		31 December 2017	
Mln RUB	Financial asset	Financial liability	Financial asset	Financial liability
Coal derivatives – cash flow hedge	469	-	-	-
Other derivatives	-	(66)	111	(111)
	469	**(66)**	**111**	**(111)**

Derivative financial instruments were valued using observable inputs, which correspond to Level 2 of the hierarchy of the fair value measurements under IFRS.

Cash flow hedging instruments

The Group uses commodity forwards and swaps to hedge the coal price index used for determination of coal sales prices (API-2 and NEWC).

Derivatives receivable as at 31 December 2018 relate to open contracts to sell coal in the volume of 560 thousand tons, which are subject to execution during the first quarter of 2019.
The average coal sale forward price is USD 97 per metric ton.

The change in the fair value of the hedging instruments for the reporting period is presented below:

	2018		2017	
Mln RUB	**Gain recognised in other comprehensive income**	**Gain / (Losses) reclassified to profit / (losses) for the period**	**Gain recognized in other comprehensive income**	**Gain / (Losses) reclassified to profit / (losses) for the period**
Effective portion of change in fair value of cash-flow hedges	403	-	-	-
Deferred tax	(81)	-	-	-
	322	**-**	**-**	**-**

21. PREPAYMENTS AND DEFERRED EXPENSES

Mln RUB	**31 December 2018**	**31 December 2017**
Advances given for transportation services	598	722
Advances given for inventory and other services	249	123
	847	**845**

22. CASH AND CASH EQUIVALENTS

Mln RUB	**31 December 2018**	**31 December 2017**
Term deposits	15,759	4,126
Bank accounts	1,061	1,297
Petty cash	3	7
	16,823	**5,430**

As at 31 December 2018, deposit rates for the Group were 4.14% – 6.65% for the deposits in RUB (31 December 2017: 4.70% – 6.50%) and 0.59% – 3.2% for the deposits in USD (31 December 2017: 0.01% – 2.00%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

23. SHARE CAPITAL

	31 December 2018	**31 December 2017**
Number of authorised shares	99,258,355	99,258,355
Par value, Russian roubles	0.2	0.2
Share capital, RUB million	**20**	**20**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(a) Dividends

Since June 2018, the Company adopted a revised dividend policy. The amount of dividends payable is recommended by the Board of Directors. When determining the amount of dividends, the Board of Directors considers the amount of net profit for the year as recorded in the Company's statutory financial statements prepared in accordance with the Russian Accounting Principles, as well as the Group's net profit reported in the consolidated financial statements prepared in accordance with IFRSs. The Board of Directors also assesses the degree of influence of the total amount of dividends payable in the reporting period on the financial results of the Company under the Russian Accounting Principles and IFRSs.

In 2018, dividends in the amount of RUB 993 million or RUB 10 per ordinary share were declared and paid. In 2017, dividends were declared and paid in total amount RUB 596 million or RUB 6 per ordinary share.

24. EARNINGS PER SHARE

The basic and diluted earnings per share in 2018 amounting to RUB 60.29 (2017: RUB 21.09) was calculated on the profit for the year attributable to shareholders of RUB 5,984 million (2017: RUB 2,093 million), and a weighted average number of ordinary shares outstanding of 99,253,161 in 2018 (2017: 99,258,355).

In the reporting year, one of the subsidiaries purchased shares of the parent company KTK PJSC in the amount of 80,820 units, or 0.09% of the total number of shares issued. The consideration paid amounted to RUB 16 million. The Group's treasury shares are accounted for in equity at the cost of the consideration paid and reduce the Group's capital.

The Company has neither preference shares nor dilutive potential ordinary shares.

25. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 28.

Mln RUB	**31 December 2018**	**31 December 2017**
Non-current liabilities		
Unsecured bank loans	14,568	5,868
Secured bank loans	1,049	1,215
Loans from other companies	125	128
	15,742	**7,211**
Current liabilities		
Unsecured bank loans	4,007	1,114
Secured bank loans	1,156	1,351
Loans from other companies	16	17
Interest accrued	39	25
	5,218	**2,507**

Bank loans are secured by the property, plant and equipment with a carrying amount of RUB 2,899 million (31 December 2017: RUB 2,081 million). Refer to note 16.

(a) Terms and debt repayment schedule:

				2018		2017	
Mln RUB	**Currency**	**Effective interest rate**	**Year of maturity**	**Carrying amount**	**Face value**	**Carrying amount**	**Face value**
Secured bank loan	USD	4.7%	2019	646	646	1,156	1,156
Secured bank loan	RUR	12.7%	2019	126	126	664	664
Secured bank loan	RUR	12.1%	2019-2021	516	516	675	675
Secured bank loan	RUR	8.9%	2019-2022	937	937	-	-
Unsecured bank loan	USD	4.8%	2020	2,294	2,294	-	-
Unsecured bank loan	Euro	1.8%-2.04%	2019-2020	5,816	5,816	3,110	3,110
Unsecured bank loan	Euro	2.13%	2019-2021	1,114	1,114	-	-
Unsecured bank loan	RUR	7.99%-8.35%	2019	2,627	2,627	-	-
Unsecured bank loan	RUR	8.45-8.6%	2019-2020	1,272	1,272	37	37
Unsecured bank loan	RUR	9.1-9.35%	2019-2020	3,205	3,205	761	761
Unsecured bank loan	RUR	9.7%-10.5%	2019-2020	1,807	1,807	801	801
Unsecured bank loan	RUR	10.15%	2019-2023	459	459	-	-
Loans from other companies	RUR	8.0-9.5%	2019-2037	141	282	145	299
Unsecured bank loan	USD	3.5-4.47%	2018	-	-	2,279	2,279
Secured bank loan	RUR	13.0%	2018	-	-	90	90
				20,960	**21,101**	**9,718**	**9,872**

The borrowings presented above include interest payable.

(b) Reconciliation of changes in liabilities and cash flows from financing activities

Mln RUB	Loans and borrowings
Balance as at 1 January 2018	**9,718**
Changes from financing cash flows:	
Proceeds from loans and borrowings	29,661
Repayment of borrowings	(19,628)
Total changes from financing cash flows	**10,033**
The effect of changes in foreign exchange rates	**1,193**
Other changes in liabilities:	
Capitalized borrowing costs	12
Interest expenses	581
Interest paid	(577)
Total liability-related other changes	**16**
Balance at 31 December 2018	**20,960**

26. PROVISIONS AND OTHER LIABILITIES

The Group's provisions and other liabilities are represented by the following:

Mln RUB	31 December 2018	31 December 2017
Site restoration liabilities	343	372
Concession agreement liabilities	152	144
Retirement benefit liability	74	68
Non-current provisions and liabilities	**569**	**584**
Net assets attributable to minority participants in LLC entities	190	160
Site restoration liabilities	43	-
Retirement benefit liability	26	15
Current provisions and liabilities	**259**	**175**

As minority participants in limited liability companies of the Group have an unilateral right to withdraw their share of net assets from the entity, their interests in the net assets of these entities have been recognised as a liability.

(a) Site restoration liabilities

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

In 2018, RUB 21 million (2017: RUB 9 million) were attributed to the cost of coal production. As a result of change in accounting estimates mainly due to a rise of the discount rate, RUB 35 million were credited to cost of sales (2017: RUB 13 million were debited to cost of sales). The Group uses a nominal discount rate based on an average yield on Russian government bonds with similar maturities. As at 31 December 2018, the average yield amounted to 8.67% per year (31 December 2017: 7.92% per year).

Considering the nature of these liabilities, the main uncertainty arises in respect of the expenses to be incurred by the Group in future. Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as those operated by the Group. Generally the standard of restoration is determined based on discussions with federal and local government officials at the time when restoration is about to commence.

In making the assumptions for the calculation of the expected costs, management has consulted with its in-house engineers who have considered statutory requirements in respect of similar sites that require similar site restoration activities.

(b) Concession agreement liabilities

As part of concession agreements with three municipalities in force at the reporting date, the Group, on the one hand, has the right to charge consumers for utility services rendered with the use of the property transferred to the Group, and, on the other hand, has the obligation to carry out the reconstruction of the infrastructure objects transferred to the Group according to the established schedules. The agreements are valid until 2025, 2030 and 2032.

The fair value of liabilities under the concession agreements at the recognition date has been determined as the present value of future costs for the reconstruction of the infrastructure, 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 8.21% – 8.42% (2017: 8.21% – 8.42%) per annum.

27. TRADE AND OTHER PAYABLES

Mln RUB	31 December 2018	31 December 2017
Trade payables	2,230	1,889
Payables to personnel	688	395
Taxes (other than income tax) payables	607	383
Payables for transportation services and other payables	301	196
Income tax payable	190	98
Payables for property, plant and equipment	182	312
Payables on completed hedging transactions	149	27
Advances received	145	147
	4,492	**3,447**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Accounting classifications and fair values

The Group classifies financial instruments into financial instruments measured at amortised cost and financial instruments measured at fair value.

Excluding the items shown below, management of the Group believes that at the 31 December 2018 and 31 December 2017 the carrying amounts of the Group's financial assets and liabilities were a reasonable approximation of their fair values.

	31 December 2018		31 December 2017	
Mln RUB	Carrying amount	Fair value Level 3	Carrying amount	Fair value Level 3
Loans and borrowings measured at amortised cost	20,960	20,672	9,718	9,906

The fair value was determined as the amount of discounted cash flows on liabilities. The interest rates used to discount estimated cash flow were based on the incremental borrowing interest rate at the reporting date:

	31 December 2018	31 December 2017
Loans and borrowings measured at amortised cost	5.53%-5.67% (USD) 2.38%-2.82% (EURO) 9.79%-10.3% (RUB)	4.64%-5.12% (USD) 2.96% (EURO) 8.82%-9.48% (RUB)

(b) Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

Risk management procedures are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The actual execution of financial instruments risk analysis and management is the responsibility of the General Director of the Group, who reviews on a regular basis risk exposure and risk profiles and recommends management actions aimed at mitigating risks beyond levels of tolerance.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, deposits with banks and financial institutions, loans given and outstanding trade and other receivables. Credit risk is managed on a group level.

The Group's exposure to credit risk in respect of trade and other receivables at the end of the reporting period is primarily represented by receivables from wholesale customers and other counterparties in the Russian Federation and the Republic of Poland.

Impairment losses

The Group does not require collateral in respect of its accounts receivable. Credit evaluations are performed on all customers, other than related parties, before proposing to the client standard payment and delivery conditions accepted by the Group. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The client base in the domestic market is mainly represented by municipal enterprises and their paying ability depends directly on the status of public financing. The Group has a significant amount of overdue receivables from those customers at the reporting date. However, such terms are considered by management to be common for the customers in this segment.

Since the beginning of the reporting year, the Group has created an allowance for impairment, which is an estimate of expected credit losses under IFRS 9 *Financial Instruments*. The Group decided to reflect the effect of the first application of the standard in the amount of RUB 98 million in the opening balance of retained earnings.

The ageing of trade and other receivables together with allowances as at the reporting dates was:

	31 December 2018		31 December 2017	
Mln RUB	**Trade and other receivables**	**Impairment**	**Trade and other receivables**	**Impairment**
Not past due	3,646	(62)	2,058	(18)
Past due 0-30 days	336	(14)	181	-
Past due 31-60 days	123	(7)	133	-
Past due 61-90 days	46	(3)	87	-
Past due 91-180 days	28	(5)	80	-
Past due more than 180 days	1,285	(1,074)	1,251	(971)
	5,464	**(1,165)**	**3,790**	**(989)**

As at 31 December 2018, the trade receivables of the Group before allowance included balances of several Polish counterparties in the total amount of RUB 1,019 million (31 December 2017: RUB 1,004 million). As at the reporting date, management of the Group in light of all known facts and circumstances assesses the probability of recovery of those receivables as low. As a result, the impairment of those receivables at the reporting date amounted to RUB 935 million (31 December 2017: RUB 846 million).

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Mln RUB	**2018**	**2017**
Balance as at beginning of the year	(989)	(731)
Effect from application IFRS 9	(98)	-
Recognised in the statement of profit or loss and other comprehensive income	(72)	(186)
Effect of changes in foreign currency exchange rate	(16)	(92)
Amounts written off against bad debt provision	10	20
Balance as at end of the year	**(1,165)**	**(989)**

Other financial instruments as at 31 December 2018 and 31 December 2017 were not past due and respective expected credit losses were immaterial.

(ii) The credit risk level

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Mln RUB	**31 December 2018**	**31 December 2017**
Cash and cash equivalents	16,823	5,430
Trade receivables	4,029	2,431
Derivatives	469	111
Other receivables	270	370
Other financial assets	6	6
	21,597	**8,348**

As at 31 December 2018, 91% (31 December 2017: 72%) and 2% (31 December 2017: 11%) of cash and cash equivalents were held in four largest Russian banks and in the largest Swiss bank respectively. The remainder 7% were allocated between five other major Russian banks. The individual balance in each of these banks did not exceed 10% of total amount of cash and cash equivalents at the reporting date.

The analysis of credit risk concentration related to cash and cash equivalents ratings and derivatives, based on credit ratings determined by international independent rating agencies Fitch Ratings and Standard & Poor's is presented below:

	31 December 2018	31 December 2017
From A(-) to AAA	-	604
From BBB (-) to BBB (+)	14,611	4,304
From BB (-) to BB (+)	2,370	430
Other	311	203
	17,292	**5,541**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations when due. The Group's approach to managing liquidity is to ensure sufficient balance of cash and cash equivalents and to ensure financing with sufficient credit facilities.

In the reporting year and beyond, the Group anticipates funding for further capital investments from cash generated from operations and additional bank loans. Management believes that based on the expected levels of operating profit and cash flows the Group will be able to meet its short-term liabilities as they fall due.

As at 31 December 2018, the Group has a number of open credit lines from several major Russian and foreign banks. In accordance with the agreements, the Group may borrow from these banks in roubles at 9.76% p.a. (2017: 8.96% p.a.) and in foreign currency at 4.08% p.a. (2017: 4.03% p.a.). The unused amount of these facilities was RUB 11,376 million as at the reporting date (31 December 2017: RUB 16,984 million).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As at 31 December 2018

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2,225	697	614	475	475	243	-	-	2,504
Unsecured bank loans	18,594	3,108	1,784	13,415	1,265	124	111	-	19,807
Loans from other companies	141	8	8	16	16	16	16	203	283
Trade and other payables	3,550	3,550	-	-	-	-	-	-	3,550
Net assets attributable to minority participants in LLC entities	190	190	-	-	-	-	-	-	190
	24,700	**7,553**	**2,406**	**13,906**	**1,756**	**383**	**127**	**203**	**26,334**

As at 31 December 2017

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2,585	796	777	993	240	279	-	-	3,085
Unsecured bank loans	6,988	1,262	132	3,376	2,810	-	-	-	7,580
Loans from other companies	145	8	8	16	16	16	16	219	299
Trade and other payables	2,819	2,819	-	-	-	-	-	-	2,819
Net assets attributable to minority participants in LLC entities	160	160	-	-	-	-	-	-	160
	12,697	**5,045**	**917**	**4,385**	**3,066**	**295**	**16**	**219**	**13,943**

Amounts of trade and other payables exclude advances received and other taxes payable.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, world coal prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) The risk of changes in fair value

In the reporting year, in order to hedge the risks associated with changes in contract export prices for coal, the Group, as part of the developed hedging policy, conducted transactions with derivative financial instruments and classified them as financial instruments at fair value. The group applies special hedge accounting to reflect the effective portion of the change in the fair value of financial instruments as part of the coal sales revenue for the reporting period in which the transaction was completed. If prices for coal were 10% higher or lower compared to management's assessment of fair value as at 31 December 2018 and 31 December 2017, other comprehensive income would not have changed for 2017 and 2018.

(ii) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group entities.

The policy of the Group in relation to the structure of its financial liabilities is based on expected revenue cash flows denominated in the relevant currency. Therefore, the Group uses economic hedging of the currency risk arising from the fluctuations of currency exchange rates.

Exposure to currency risk and sensitivity analysis

The following exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD 1	62.7078	58.3342	69.4706	57.6002
EUR 1	73.9546	65.8842	79.4605	68.8668
PLN 1	17.3561	15.4810	18.4826	16.5110
CHF 1	64.0680	59.2549	70.5787	58.9743
JPY 1	0.5676	0.5199	0.6300	0.5115

The Group's exposure to foreign currency risk was as follows based on notional amounts:

At the 31 December 2018:

Mln RUB	USD-denominated	EUR-denominated	PLN-denominated	CHF-denominated	JPY-denominated
Trade and other receivables	1,578	-	1,181	-	-
Cash and cash equivalents	15,749	218	463	1	-
Trade and other payables	(1,199)	(78)	(465)	(4)	(155)
Loans and borrowings	(2,940)	(6,930)	-	-	-
Net exposure	**13,188**	**(6,790)**	**1,179**	**(3)**	**(155)**

At the 31 December 2017:

Mln RUB	USD-denominated	EUR-denominated	PLN-denominated	CHF-denominated	JPY-denominated
Trade and other receivables	821	-	554	-	-
Cash and cash equivalents	4,938	103	162	-	-
Trade and other payables	(29)	(9)	(297)	(2)	(99)
Loans and borrowings	(3,435)	(3,110)	-	-	-
Net exposure	**2,295**	**(3,016)**	**419**	**(2)**	**(99)**

The sensitivity analysis to changes in the exchange rate of the ruble was conducted in relation to the most significant foreign currencies used in the activities of the Group and it is assumed that all other variables, in particular interest rates, remain constant.

Based on the Group's exposure to the risks as at the reporting date, a possible impact to the profit before income tax could be as follows:

Assumption	Impact to the profit or loss before income tax: increase/(decline), RUB million	
	2018	2017
Strengthening/(weakening) of the RUB against USD for 10%	(1,319)/1,319	(230)/230
Strengthening/(weakening) of the RUB against PLN for 10%	(118)/118	(42)/42
Strengthening/(weakening) of the RUB against EURO for 10%	680/(680)	302/(302)

(iii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt) or their future cash flows (variable rate debt).

The Group's management generally prefers the use of fixed rate instruments. However, at the time of raising new loans or borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

Mln RUB	31 December 2018	31 December 2017
Fixed rate interest-bearing instruments:		
Deposits	15,759	4,126
Loans and borrowings	(20,960)	(9,718)
	(5,201)	**(5,592)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss for the period.

(e) Capital management

The Group's main objective when managing capital is to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders and benefits to other interested parties, as well as to maintain an optimal capital structure.

Group's dividend policy is disclosed in note 23 (a).

A part of the Group bank loans has a number of covenants, mainly associated with compliance of financial ratios, such as net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA"), with the target values stated in the loan agreements.

The Group was in compliance with all such covenants during 2017-2018.

(f) Offsetting of financial assets and financial liabilities

As at 31 December 2018 and 31 December 2017, the Group had no financial assets and financial liabilities that meet the requirements for offsetting financial assets and financial liabilities. Gross amounts of financial assets and liabilities that do not meet the offsetting criteria as at 31 December 2018 were RUB 782 million and RUB 645 million respectively, of which RUB 460 million do not qualify for offsetting (31 December 2017: not significant).

29. OPERATING LEASES

The Group leases a number of property, plant and equipment facilities under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. During the year RUB 250 million (2017: RUB 167 million) were recognised as an expense in the statement of profit or loss and other comprehensive income. Future minimum lease payments due under non-cancellable operating lease agreements as at 31 December 2018 amounted to RUB 1,163 million (31 December 2017: RUB 643 million), including those due within one year amounting to RUB 196 million (31 December 2017: RUB 157 million), from one to three years amounting to RUB 357 million (31 December 2017: RUB 103 million), from three to five years amounting to RUB 207 million (31 December 2017: RUB 100 million), and more than five years amounting to RUB 403 million (31 December 2017: RUB 283 million).

Additionally, the Group leases land plots which are occupied by the Group's production and sale facilities from various municipal bodies. The land leases run for different periods: from one year and are prolonged on an annual basis, up to 50 years. As at the year end the Group leased approximately 469 hectares of land (2017: 508 hectares) and made payments during the year of RUB 38 million (2017: RUB 38 million). Payments of land rent in subsequent years will depend on the size of land plots under lease and changes in the rent rate per hectare.

30. CONTINGENCIES

(a) Capital commitments

As at 31 December 2018 the Group has entered into a number of contracts to purchase plant and equipment for RUB 1,552 million (at 31 December 2017: RUB 1,417 million). The commitments are mainly related to the acquisition of machinery, equipment and vehicles in the program of the planned renewal of the production assets and also to the reconstruction of coal enrichment facilities.

(b) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion since 2014).

The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changed aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

31. RELATED PARTY TRANSACTIONS

(a) Key management remuneration

Key management received the following remuneration during the year (refer to note 13), which is included in personnel costs:

Mln RUB	2018	2017
Salaries and bonuses	579	326
Social charges	112	64
Total management remuneration	**691**	**390**

(b) Transactions with other related parties

The Group's other related party transactions, which are represented by transactions with its equity accounted investees, are disclosed below:

(i) Expenses

	Transaction value		Outstanding balance	
Mln RUB	2018	2017	31 December 2018	31 December 2017
Services received	6	6	-	1
	6	**6**	-	1

All outstanding balances with related parties are non-secured and to be settled in cash within six months of the reporting date.

(ii) Revenue

	Transaction value		Outstanding balance	
Mln RUB	2018	2017	31 December 2018	31 December 2017
Sale of coal	29	27	4	2
Other revenue	4	5	-	5
	33	**32**	**4**	**7**

All outstanding balances with related parties are non-secured and to be settled in cash within six months of the reporting date.

32. EVENTS SUBSEQUENT TO THE REPORTING DATE

The Group has evaluated events subsequent to the period end through the date of consolidated financial statements authorisation for issue. No events that would require disclosures were identified.