JSC SUEK

Consolidated Interim
Condensed Financial Information
and Review Report

for the six months ended 30 June 2019

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders of JSC SUEK

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of JSC SUEK (the "Company") and its subsidiaries (the "Group") as at 30 June 2019, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Reviewed entity: JSC SUEK

Registration No. in the Unified State Register of Legal Entities 1027700151380

Moscow, Russia

Audit firm: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2019 and for the six-month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Андрей Ким

Andrey Kim

JSC "KPMG"

Moscow, Russia

11 July 2019

Millions of US Dollars

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	5	**3,960**	**4,295**
Cost of sales	6	(2,207)	(2,093)
Distribution costs	7	(960)	(1,052)
General and administrative expenses	8	(107)	(122)
Other income/(expense), net		7	(24)
Operating profit		**693**	**1,004**
Finance costs, net	9	(186)	(165)
Foreign exchange gain/(loss)		171	(11)
Profit before tax		**678**	**828**
Income tax expense	21	(127)	(174)
Net profit for the period		**551**	**654**
Net profit attributable to:			
Ordinary shareholders of the parent		546	642
Non-controlling interests		5	12
Net profit for the period		**551**	**654**
Basic and diluted earnings per share (in US Dollars)		2.31	2.77
Other comprehensive income/(loss)			
Items which may be reclassified to profit or loss in the future:			
Translation difference		111	(243)
Transfer of changes in fair value of cash flow hedges to profit or loss, net of deferred tax		(85)	14
Effective portion of changes in fair value of cash flow hedges, net of deferred tax		176	(58)
Total items which may be reclassified to profit or loss in the future		**202**	**(287)**
Total other comprehensive income/(loss) for the period		**202**	**(287)**
Total other comprehensive income/(loss) attributable to:			
Ordinary shareholders of the parent		187	(262)
Non-controlling interests		15	(25)
Total other comprehensive income/(loss) for the period		**202**	**(287)**
Total comprehensive income attributable to:			
Ordinary shareholders of the parent		731	376
Non-controlling interests		22	(9)
Total comprehensive income for the period		**753**	**367**

Vladimir Rashevsky
Chief Executive Officer

Nikolay Pilipenko
Chief Financial Officer

11 July 2019

The comparative consolidated interim condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 has been restated for the effect of the acquisition of SGC group described in note 1.

The accompanying notes on pages 8 to 21 are an integral part of this consolidated interim condensed financial information.

Consolidated interim condensed statement of financial position as at 30 June 2019

Millions of US Dollars

	Notes	30 June 2019	31 December 2018
ASSETS			
Non-current assets		**14,208**	**12,044**
Property, plant and equipment	10	12,211	11,724
Right-of-use assets	11	1,629	—
Deferred tax assets		123	136
Goodwill		78	78
Other assets	12	167	106
Current assets		**2,094**	**1,995**
Trade accounts and other receivables	13	853	882
Inventories	14	695	735
Prepaid and recoverable taxes	15	195	175
Derivative financial assets		138	37
Cash and cash equivalents		213	166
Total assets		**16,302**	**14,039**
EQUITY AND LIABILITIES			
Equity		**5,960**	**5,235**
Share capital	16	—	—
Share premium	16	104	104
Revaluation reserve		5,586	5,665
Hedging reserve		117	26
Translation reserve		(1,716)	(1,812)
Retained earnings		1,686	1,063
Attributable to ordinary shareholders of the parent		**5,777**	**5,046**
Non-controlling interests		**183**	**189**
Non-current liabilities		**6,190**	**7,083**
Long-term borrowings	17	3,193	3,272
Deferred tax liabilities		1,659	1,663
Long-term lease liabilities	18	1,050	—
Other long-term liabilities	19	288	2,148
Current liabilities		**4,152**	**1,721**
Trade accounts and other payables	20	2,429	506
Short-term borrowings	17	1,435	1,081
Short-term lease liabilities	18	145	—
Taxes payable		136	130
Derivative financial liabilities		7	4
Total shareholders' equity and liabilities		**16,302**	**14,039**

The accompanying notes on pages 8 to 21 are an integral part of this consolidated interim condensed financial information.

Millions of US Dollars

	Notes	Six months ended 30 June 2019	2018
Profit before tax		**678**	**828**
Adjustments to profit before tax:			
Depreciation and amortisation	6, 7	481	351
Finance costs, net	9	186	165
Bad debt expense		5	24
Foreign exchange (gain)/loss		(171)	11
Other, net		(2)	4
Changes in working capital items:			
Decrease in trade accounts and other receivables		77	220
Decrease/(increase) in inventories		51	(51)
(Increase)/decrease in prepaid and recoverable taxes (other than income tax)		(22)	6
Increase/(decrease) in trade accounts and other payables		43	(238)
Decrease in taxes payable (other than income tax)		(32)	(31)
Net cash inflow from operations		**1,294**	**1,289**
Income tax paid		(122)	(165)
Net cash inflow from operating activities		**1,172**	**1,124**
Investing activities			
Purchase of property, plant and equipment	11	(705)	(314)
Payments for the acquisition of SGC group	22	(123)	—
Loans issued, net		(19)	1
Interest received		9	11
Business combination		(3)	(496)
Other non-current investments, net		8	—
Net cash outflow used in investing activities		**(833)**	**(798)**
Financing activities			
Proceeds from long-term borrowings		396	1,961
Repayments of long-term borrowings		(429)	(2,001)
Proceeds from short-term borrowings, net		63	180
Interest and commissions paid		(146)	(155)
Payment of lease liabilities	18	(160)	—
Acquisition of non-controlling interests		(15)	(63)
Dividends paid to non-controlling interests		(10)	(6)
Prepayment for acquisition of non-controlling interest		—	(108)
Settlement of cross-currency interest rate swap		—	(30)
Net cash outflow used in financing activities		**(301)**	**(222)**
Foreign exchange effect on cash and cash equivalents		9	(14)
Net increase in cash and cash equivalents		**47**	**90**
Cash and cash equivalents at the beginning of the period		166	475
Cash and cash equivalents at the end of the period		**213**	**565**

The comparative consolidated interim condensed statement of cash flows for the six months ended 30 June 2018 has been restated for the effect of the acquisition of SGC group described in note 1.

The accompanying notes on pages 8 to 21 are an integral part of this consolidated interim condensed financial information.

JSC SUEK
Consolidated interim condensed statement of changes in shareholders' equity for the six months ended 30 June 2019
Millions of US Dollars

	Share capital	Share premium	Reva-luation reserve	Hedging reserve	Trans-lation reserve	Retained earnings	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2018	—	—	**4,774**	**(62)**	**(1,402)**	**1,704**	**5,014**	**201**	**5,215**
Net profit for the period	—	—	—	—	—	642	**642**	12	**654**
Other comprehensive income	—	—	—	(44)	(218)	—	**(262)**	(25)	**(287)**
Transfer to retained earnings	—	—	(68)	—	—	64	**(4)**	4	**—**
Total comprehensive income for the period	—	—	**(68)**	**(44)**	**(218)**	**706**	**376**	**(9)**	**367**
Transactions with owners:									
Business combination	—	—	—	—	—	—	**—**	145	**145**
Issue of shares	—	104	—	—	—	—	**104**	—	**104**
Acquisition of non-controlling interests	—	—	—	—	—	(20)	**(20)**	(43)	**(63)**
Dividends to non-controlling interests	—	—	—	—	—	—	**—**	(6)	**(6)**
Total transactions with owners	**—**	104	**—**	**—**	**—**	**(20)**	**84**	**96**	**180**
Balance at 30 June 2018	**—**	**104**	**4,706**	**(106)**	**(1,620)**	**2,390**	**5,474**	**288**	**5,762**
Balance at 1 January 2019	**—**	**104**	**5,665**	**26**	**(1,812)**	**1,063**	**5,046**	**189**	**5,235**
Net profit for the period	—	—	—	—	—	546	**546**	5	**551**
Other comprehensive income	—	—	—	91	96	—	**187**	15	**202**
Transfer to retained earnings	—	—	(79)	—	—	77	**(2)**	2	**—**
Total comprehensive income for the period	**—**	**—**	**(79)**	**91**	**96**	**623**	**731**	**22**	**753**
Transactions with owners:									
Acquisition of non-controlling interests	—	—	—	—	—	—	**—**	(18)	**(18)**
Dividends to non-controlling interests	—	—	—	—	—	—	**—**	(10)	**(10)**
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(28)**	**(28)**
Balance at 30 June 2019	**—**	**104**	**5,586**	**117**	**(1,716)**	**1,686**	**5,777**	**183**	**5,960**

The comparative interim condensed statement of changes in shareholders' equity for the six months ended 30 June 2018 has been restated for the effect of the acquisition of SGC group described in note 1.

The accompanying notes on pages 8 to 21 are an integral part of this consolidated interim condensed financial information.

1. GENERAL INFORMATION

Organisation and principal activities. Joint Stock Company ("JSC") "Siberian Coal Energy Company" ("SUEK" or the "Company") was founded on 1 December 1999. The Company and its subsidiaries are collectively referred to as the Group. The address of registered office is Dubininskaya st. 53, bld. 7, Moscow, Russian Federation. The principal activities of the Group are the extraction and sale of coal and generation and sales of electricity, heat and capacity.

AIM Capital SE, registered in the Republic of Cyprus, is the immediate parent company of SUEK with 92.2% interest in the Company's share capital.

A company that holds business interests beneficially for Mr. Andrey Melnichenko indirectly owns 100% of AIM Capital SE.

In August 2018, the Group acquired from a parent company 99.9% of Siberian Generating Company ("SGC") group. Since the acquisition of the SGC group represents a transaction under common control the consolidated financial statements of the Group were retrospectively restated to reflect the effect of the acquisition as if it had occurred on 1 January 2017, at the beginning of the earliest comparative period.

2. BASIS OF PRESENTATION

The International Financial Reporting Standards ("IFRS") consolidated interim condensed financial information ("consolidated interim condensed financial information") of the Group has been prepared in accordance with International Accounting Standard No. 34 – "*Interim Financial Reporting*".

This consolidated interim condensed financial information does not contain all the information required for presentation in a complete set of IFRS financial statements and therefore should be read in conjunction with SUEK's consolidated annual financial statements for the year ended 31 December 2018.

The consolidated interim condensed financial information of the Group has been prepared on the historical cost basis, except for:

- mining assets carried at fair value; and
- derivative financial instruments which are stated at fair value.

Functional currency. The functional currency of subsidiaries of the Group is the currency of the primary economic environment where these entities operate. The functional currency of foreign trading subsidiaries and predominantly export-oriented Russian subsidiaries is US Dollar ("USD"). The functional currency of the Company and Russian subsidiaries that are not predominantly export-oriented is the Russian Rouble ("RUB").

Presentation currency. The presentation currency is the USD. The translation of the consolidated interim condensed financial information into the presentation currency was performed in accordance with the requirements of IAS 21 "*The Effects of Changes in Foreign Exchange Rates*".

Millions of US Dollars, unless otherwise stated

The following RUB/USD exchange rates were applied at 30 June and during the periods then ended:

	2019	**2018**
Period end (year end for 2018)	63.08	69.47
Average rate for 6 months ended 30 June	65.34	59.35

Adoption of a new standard

The Group has applied *IFRS 16 "Leases"* from 1 January 2019 using the modified retrospective approach as of 1 January 2019 and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any repayments of lease made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the payments of lease discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The weighted-average rate applied is 8.03%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, payments of lease in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future payments of lease arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

If the terms of the asset's lease agreement provide for a purchase option and the Group is reasonably certain that it will exercise this option, the Group depreciates the right-of-use asset from the commencement date till the end of the useful life of the underlying asset. Depreciation will be calculated based on the useful life of assets under lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets (with a value of USD 5,000 or less when they are new). The Group recognises the payments of lease associated with these leases as an expense on a straight-line basis over the lease term.

Seasonality of business. The business and operating results of the Group are substantially dependent on domestic and international demand. Coal and energy markets are cyclical and exhibit fluctuations in supply and demand from year to year and are subject to numerous factors, including, but not limited to:

- Russian and global economic conditions;
- regional and global supply and demand for domestic and foreign coal and expectations regarding future supply and demand;
- fluctuations in industries with high demand for coal, such as power generation companies and metallurgical plants;
- unseasonably warm or cool temperatures or other climatic conditions and
- availability and price of alternative fuels and power.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16 “Leases” described above.

4. SEGMENTAL INFORMATION

The Group evaluates performance and makes investment and strategic decisions based on a review of the profitability of the Group as a whole, and based on operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Starting from 1 January 2019 operating segments identified by management are coal, logistics, energy and corporate segments. The coal segment represents the operations of the coal mining companies including extraction, washing, sales and distribution in Russian Federation and abroad; the logistics segment includes railroad transportation assets and ports; the energy segment represents operations of energy generating companies including generation and sales of electricity, heat and capacity and the corporate segment includes holding companies.

Millions of US Dollars, unless otherwise stated

Management believes that the new disclosure structure presents more fairly the operating segment information. Changes were caused by evolutionary approach resulting from acquisition and development of business other than coal. The comparative information for the six months ended 30 June 2018 and as at 31 December 2018 has been restated for the effect of these changes.

Operating segment information for the Group at 30 June 2019 and for the the six months then ended is as follows:

	Coal	Logistics	Energy	Corporate	Inter-segment elimination	Total
Segment revenue and profitability						
Segment external revenues	2,711	112	1,137	—	—	**3,960**
Russian Federation	299	112	1,137	—	—	**1,548**
Pacific region	1,442	—	—	—	—	**1,442**
Atlantic region	970	—	—	—	—	**970**
Inter-segment revenues	491	916	5	23	(1,435)	**—**
Segment expenses	(3,050)	(777)	(822)	(53)	1,435	**(3,267)**
Operating profit/(loss)	**152**	**251**	**320**	**(30)**	**—**	**693**
Depreciation and amortisation	(282)	(108)	(88)	(3)	—	**(481)**
Interest expense	(76)	(42)	(62)	(96)	96	**(180)**
Interest income	3	3	2	100	(96)	**12**
Profit before tax	29	236	258	155	—	**678**
Income tax benefit/(expense)	2	(47)	(51)	(31)	—	**(127)**
Net profit for the period	**31**	**189**	**207**	**124**	**—**	**551**
Capital expenditures incurred during the period	356	45	37	1	—	**439**
Segment assets and liabilities						
Total segment assets	**13,468**	**2,528**	**3,121**	**787**	**(3,602)**	**16,302**
Total segment liabilities	**4,639**	**1,383**	**2,033**	**5,889**	**(3,602)**	**10,342**

Millions of US Dollars, unless otherwise stated

Operating segment information for the Group for the six months ended 30 June 2018 is as follows:

	Coal	**Logistics**	**Energy**	**Corporate**	**Inter-segment elimination**	**Total**
Segment revenue and profitability						
Segment external revenues	3,024	65	1,206	—	—	**4,295**
Russian Federation	511	65	1,206	—	—	**1,782**
Pacific region	1,496	—	—	—	—	**1,496**
Atlantic region	1,017	—	—	—	—	**1,017**
Inter-segment revenues	451	1,003	3	40	(1,497)	**—**
Segment expenses	(2,910)	(872)	(940)	(66)	1,497	**(3,291)**
Operating profit/(loss)	**565**	**196**	**269**	**(26)**	**—**	**1,004**
Depreciation and amortisation	(237)	(25)	(88)	(1)	—	**(351)**
Interest expense	(70)	(7)	(70)	(87)	84	**(150)**
Interest income	1	8	6	82	(84)	**13**
Profit/(loss) before tax	496	174	196	(38)	—	**828**
Income tax (expense)/benefit	(110)	(35)	(37)	8	—	**(174)**
Net profit/(loss) for the period	**386**	**139**	**159**	**(30)**	**—**	**654**
Capital expenditures incurred during the period	294	21	48	1	—	**364**

Operating segment assets and liabilities of the Group at 31 December 2018 is as follows:

	Coal	**Logistics**	**Energy**	**Corporate**	**Inter-segment elimination**	**Total**
Total segment assets	**13,198**	**952**	**2,786**	**834**	**(3,731)**	**14,039**
Total segment liabilities	**4,715**	**288**	**1,976**	**5,556**	**(3,731)**	**8,804**

5. REVENUE

	Six months ended 30 June	
	2019	**2018**
Coal	2,577	2,852
Heat	404	446
Electricity	355	338
Capacity	353	384
Petroleum coke	106	127
Other	165	148
Total	**3,960**	**4,295**

Millions of US Dollars, unless otherwise stated

6. COST OF SALES

	Six months ended 30 June	
	2019	**2018**
Coal and petroleum coke purchased from third parties	638	557
Labour	425	427
Depreciation and amortisation	373	333
Consumables and spares	224	169
Purchased fuel	135	124
Purchased power	111	131
Repairs and maintenance services	66	62
Transportation services	35	34
Property and other taxes	26	41
Tax on mining	21	22
Fire and rescue brigade expenses	19	13
Drilling and blasting services	18	22
Transfer of heat	17	16
Personnel transportation services	17	16
Land and other rent	4	20
Other	78	106
Total	**2,207**	**2,093**

Proceeds from the sale of electricity and purchased power are presented after deduction of cost of electricity generated by the Group and consumed for own process needs in the amount of 52 million USD for the period ended 30 June 2019 (for the period ended 30 June 2018 – 56 million USD).

7. DISTRIBUTION COSTS

	Six months ended 30 June	
	2019	**2018**
Railway services	575	655
Freight	140	140
Depreciation and amortisation	108	18
Stevedoring from third parties	66	68
Labour	24	26
Repair and maintenance services	24	20
Customs expenses and export duties	6	13
Rent of rail cars	—	90
Other	17	22
Total	**960**	**1,052**

8. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries	71	66
Consulting, legal, audit and other professional services	13	13
Charitable donations	12	22
Other	11	21
Total	**107**	**122**

Millions of US Dollars, unless otherwise stated

9. FINANCE COSTS, NET

	Six months ended 30 June	
	2019	**2018**
Interest expense	140	150
Interest on lease	40	—
Bank commissions and charges	12	22
Unwinding of discount on provisions	6	6
Interest income	(12)	(13)
Total	**186**	**165**

10. PROPERTY, PLANT AND EQUIPMENT

	Mining assets	Buildings, structures and utilities	Machinery, equipment, transport and other	Railcars	Construc-tion-in-progress	Total
Net book value at 1 January 2018	**5,914**	**1,754**	**1,813**	**312**	**349**	**10,142**
Business combination	—	738	73	—	33	**844**
Additions	—	—	20	—	344	**364**
Transfers	—	18	183	—	(201)	**—**
Disposals	—	(2)	2	—	(5)	**(5)**
Depreciation and amortisation	(91)	(83)	(163)	(6)	—	**(343)**
Translation difference	(135)	(151)	(102)	(13)	(17)	**(418)**
Net book value at 30 June 2018	**5,688**	**2,274**	**1,826**	**293**	**503**	**10,584**
Net book value at 1 January 2019	**6,966**	**1,995**	**1,868**	**288**	**607**	**11,724**
Business combination	—	15	4	—	—	**19**
Additions	7	—	—	—	432	**439**
Transfers	33	19	217	—	(269)	**—**
Disposals	—	(4)	(23)	—	(8)	**(35)**
Depreciation and amortisation	(124)	(71)	(166)	(3)	—	**(364)**
Translation difference	135	140	113	15	25	**428**
Net book value at 30 June 2019	**7,017**	**2,094**	**2,013**	**300**	**787**	**12,211**

Group assets include advances issued for capital expenditures of 86 million USD (31 December 2018 – 100 million USD).

Millions of US Dollars, unless otherwise stated

11. RIGHT-OF-USE ASSETS

	Buildings, structures and utilities	Machinery, equipment, transport and other	Railcars	Total
Recognition at 1 January 2019	**164**	**24**	**591**	**779**
Additions	2	–	847	**849**
Disposals	–	–	(3)	**(3)**
Depreciation	(9)	(4)	(88)	**(101)**
Translation difference	16	1	88	**105**
Balance at 30 June 2019	**173**	**21**	**1,435**	**1,629**

In the first half of 2019, the Group acquired a company with railcars in lease for a consideration of 425 million USD from a third party. The Group treated this transaction as acquisition of assets and recognised railcars in the form of a right-of-use assets of 832 million USD. Lease liabilities related to these railcars are disclosed in note 18. The consideration paid is included in the Property, plant and equipment line in the consolidated interim condensed statement of cash flows in accordance with its substance.

12. OTHER ASSETS

	30 June 2019	31 December 2018
Contract assets under concession agreements	50	24
Other assets	117	82
Total	**167**	**106**

13. TRADE ACCOUNTS AND OTHER RECEIVABLES

	30 June 2019	31 December 2018
Trade accounts receivable	853	859
Advances issued	109	127
Other receivables	85	67
Subtotal	**1,047**	**1,053**
Less: Allowance for doubtful debts	194	171
Total	**853**	**882**

14. INVENTORIES

	30 June 2019	31 December 2018
Coal stock	309	416
Consumable stores and materials	431	350
Less: Allowance for obsolescence	45	31
Net consumable stores and materials	386	319
Total	**695**	**735**

15. PREPAID AND RECOVERABLE TAXES

	30 June 2019	31 December 2018
Value-added tax recoverable	158	122
Income tax receivable	31	51
Prepaid other taxes	6	2
Total	**195**	**175**

16. SHARE CAPITAL AND RESERVES

	Number of shares, in thousands	
	30 June 2019	31 December 2018
Authorised share capital		
Ordinary shares	236,060	236,060
Issued share capital		
Ordinary shares	236,060	236,060

Ordinary shares of the Company have a par value of 0.005 RUB. All issued shares were fully paid.

Millions of US Dollars, unless otherwise stated

17. BORROWINGS

	Effective interest rate	30 June 2019	31 December 2018
Long-term borrowings			
Variable rate borrowings		**3,095**	**3,050**
Unsecured USD-denominated borrowings	6M LIBOR + 1.46% to 1M LIBOR + 3.0%	2,836	2,692
Unsecured EUR-denominated borrowings	6M EURIBOR + 0.5% to 6M EURIBOR + 2.25%	127	141
Unsecured RUB-denominated borrowings	Central Bank Rate + 0.3% to Central Bank Rate + 1%	132	217
Fixed rate borrowings		**1,401**	**1,241**
Unsecured RUB-denominated borrowings	0.05% to 10%	1,103	970
Unsecured RUB-denominated bonds	8.25% to 10.5%	298	271
Subtotal		**4,496**	**4,291**
Less: Current portion of long-term borrowings		1,303	1,019
Total long-term borrowings		**3,193**	**3,272**
Short-term borrowings			
Variable rate borrowings		**8**	**—**
Unsecured USD-denominated borrowings	3.72% - 4.26%	8	—
Fixed rate borrowings		**124**	**62**
Unsecured RUB-denominated borrowings	7.6% to 7.75%	—	60
Unsecured USD-denominated borrowings	2.75% to 2.95%	120	—
Other borrowings		4	2
Subtotal		**132**	**62**
Current portion of long-term borrowings		1,303	1,019
Total short-term borrowings		**1,435**	**1,081**

The Group's long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with:

- consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation ("EBITDA"); and
- EBITDA to consolidated interest expense.

The covenants are calculated based on the IFRS financial statements of the Group on a semi-annual basis. The Group was in compliance with all such covenants.

Millions of US Dollars, unless otherwise stated

18. LEASE LIABILITIES

	30 June 2019	31 December 2018
Recognition at the beginning of the period	**801**	—
Additions	425	—
Interest on lease	40	—
Payment of lease liabilities	(160)	—
Disposals	(4)	—
Translation difference	93	—
Closing balance	**1,195**	—

19. OTHER LONG-TERM LIABILITIES

Payables for the acquisition of SGC group	—	1,916
Provision for environmental obligation	88	79
Provision for defined benefit obligation	56	49
Other long-term liabilities	144	104
Total	**288**	**2,148**

20. TRADE ACCOUNTS AND OTHER PAYABLES

Payables for the acquisition of SGC group	1,803	—
Trade accounts payable and accruals	320	302
Advances from customers	118	57
Wages and salaries	57	57
Accrual for vacation payments	73	56
Other creditors	58	34
Total	**2,429**	**506**

Millions of US Dollars, unless otherwise stated

21. TAXATION

	Six months ended 30 June	
	2019	**2018**
Current income tax expense	162	168
Deferred income tax (benefit)/expense	(35)	6
Income tax expense	**127**	**174**

The reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, where the Company is domiciled, to the amount of actual income tax expense recorded in the consolidated interim condensed statement of profit or loss and other comprehensive income is as follows:

	Six months ended 30 June	
	2019	**2018**
Profit before tax	**678**	**828**
Theoretical income tax expense at 20%	136	166
Impact of specific tax rates in Switzerland	(14)	(6)
Tax effect of non-deductible expenses	5	14
Total income tax expense	**127**	**174**

22. RELATED PARTY TRANSACTIONS

Related parties are considered to include the ultimate beneficiary, affiliates and entities under common ownership and control of the same principal ultimate beneficiary. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties.Transactions with related parties not dealt with elsewhere in the consolidated interim condensed financial information are as follows:

	Six months ended 30 June	
	2019	**2018**
Coal sales to DEC group, an associate of a company with the same principal ultimate beneficiary	71	81
Energy sales	36	31
Other coal sales	—	22
Other purchases	20	13
Remuneration of the Board of Directors and the Management Board members	8	10

The outstanding balances with related parties are as follows:

	30 June 2019	**31 December 2018**
Payables for the acquisition of SGC group to a related company	1,803	1,916
Trade accounts and other receivables from DEC group	5	14
Other receivables	47	30

Millions of US Dollars, unless otherwise stated

23. COMMITMENTS

Capital commitments. The following capital expenditures were approved:

	30 June 2019	**31 December 2018**
Contracted	741	559
Not yet contracted	241	117
Total	**982**	**676**

24. CONTINGENCIES

Insurance. The insurance industry in the Russian Federation is in the process of development, and some forms of insurance protection common in developed markets are not yet generally available at commercially acceptable terms. The Group has limited coverage for its mining, processing, transportation and energy generating facilities for business interruption or for third-party liabilities in respect of property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group’s operations and financial position.

Litigation. The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits which will be required to settle such liabilities. Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group’s operations involve disturbance of land, discharge of materials and contaminants into the environment and other environmental concerns.

The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. 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.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. This change in the environment did not have a significant effect on the Group's operations, however, the longer-term effects of the imposed and possible additional sanctions are difficult to determine. The Group implemented relevant compliance policy, continuously monitors economic sanctions and analyses their effect on the Group's financial position and operation results.

The consolidated interim condensed financial information 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.

25. FAIR VALUE MEASUREMENT

The fair value of assets and liabilities is determined with reference to various market information and other valuation methods as considered appropriate. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in 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 within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data.

Financial instruments carried at amortised cost. At 30 June 2019, the fair values of financial instruments carried at amortised cost, which are mainly loans and receivables, did not materially differ from the carrying values.

Financial instruments carried at fair value. Fair values of derivative financial assets and liabilities were determined using inputs from observable market data, which correspond to Level 2 of the hierarchy of fair values.

Mining assets carried at fair value. The fair value of mining assets was determined using discounted cash flow method corresponding to Level 3 of the hierarchy of fair values. The most recent valuation was performed on 31 December 2018. Management believes that changes in weighted average cost of capital, domestic and export coal prices, and RUB/USD exchange rates as of 30 June 2019 did not materially impact the mining assets' fair value.