

**ОАО Распадская**

Consolidated financial statements

*for the year ended 31 December 2015*

OAO Raspadskaya  
Consolidated financial statements  
for the year ended 31 December 2015

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## Independent auditors' report

To Shareholders and Board of Directors of  
OAO Raspadskaya

We have audited the accompanying consolidated financial statements of OAO Raspadskaya and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the consolidated financial statements***

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

### ***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Совершенствуя бизнес,  
улучшаем мир

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLC*

23 March 2016

Moscow, Russian Federation

ОАО Raspadskaya

Consolidated statement of comprehensive income

for the year ended 31 December 2015

|  | Notes | 2015                | 2014                |
|--|-------|---------------------|---------------------|
|  |       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>Revenue</b>   |       |                     |                     |
| Sales of goods   |       | 396                 | 435                 |
| Rendering of services  |       | 23                  | 8                   |
|  | 4     | <u>419</u>          | <u>443</u>          |
| Cost of sales  | 5     | <u>(295)</u>        | <u>(400)</u>        |
| <b>Gross profit</b>  |       | <b>124</b>          | <b>43</b>           |
| Selling and distribution costs   | 5     | (20)                | (14)                |
| General and administrative expenses  | 5     | (29)                | (51)                |
| Social expenses  |       | (1)                 | (2)                 |
| Loss on disposal of property, plant and equipment  |       | (3)                 | -                   |
| Impairment of assets   |       | (66)                | (51)                |
| Foreign exchange losses  |       | (111)               | (264)               |
| Other operating income   |       | 3                   | 2                   |
| Other operating expenses   |       | (16)                | (13)                |
| <b>Operating loss</b>  |       | <u>(119)</u>        | <u>(350)</u>        |
| Gain from financial assets sale  |       | 1                   | -                   |
| Interest income  |       | 1                   | 1                   |
| Interest expense   |       | (39)                | (40)                |
| <b>Loss before income tax</b>  |       | <u>(156)</u>        | <u>(389)</u>        |
| Income tax expense   | 6     | <u>30</u>           | <u>83</u>           |
| <b>Loss for the year</b>   |       | <u>(126)</u>        | <u>(306)</u>        |
| <b>Other comprehensive income/(loss)</b>   |       |                     |                     |
| Effect of translation to presentation currency   |       | (55)                | (302)               |
| Actuarial gain on employee benefits obligation   | 16    | -                   | 7                   |
| Net loss on available-for-sale financial assets  |       | (1)                 | (1)                 |
| Other comprehensive loss for the year, net of tax  |       | <u>(56)</u>         | <u>(296)</u>        |
| <b>Total comprehensive loss for the year, net of tax</b>   |       | <u>(182)</u>        | <u>(602)</u>        |
| <i>Loss for the year attributable to:</i>  |       |                     |                     |
| Equity holders of the parent   |       | (126)               | (306)               |
| Non-controlling interests  |       | -                   | -                   |
|  |       | <u>(126)</u>        | <u>(306)</u>        |
| <i>Total comprehensive income/(loss) for the year attributable to:</i>   |       |                     |                     |
| Equity holders of the parent   |       | (181)               | (600)               |
| Non-controlling interests  |       | (1)                 | (2)                 |
|  |       | <u>(182)</u>        | <u>(602)</u>        |
| Loss per share:  |       |                     |                     |
| basic and diluted, for the profit/(loss) for the year attributable to equity holders of the parent, <i>US dollars</i> (12.02 rubles and 18.89 rubles for the years ended 31 December 2015 and 2014 respectively) | 14    | <b>(0.18)</b>       | (0.44)              |

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

OAO Raspadskaya  
Consolidated statement of financial position  
as at 31 December 2015

|  | Notes | 2015<br><i>US\$ million</i> | 2014<br><i>US\$ million</i> |
|--|-------|-----------------------------|-----------------------------|
| <b>Assets</b>  |       |                             |                             |
| <b>Non-current assets</b>  |       |                             |                             |
| Property, plant and equipment  | 7     | 499                         | 735                         |
| Deferred income tax asset  | 6     | 103                         | 108                         |
| Other non-current assets   | 8     | 5                           | 2                           |
|  |       | <b>607</b>                  | <b>845</b>                  |
| <b>Current assets</b>  |       |                             |                             |
| Inventories  | 10    | 23                          | 39                          |
| Trade and other receivables  | 11    | 34                          | 18                          |
| Prepayments  | 11    | 4                           | 2                           |
| Receivables from related parties   | 12    | 150                         | 11                          |
| Income tax receivable  |       | 2                           | 1                           |
| Other taxes recoverable  | 13    | 19                          | 20                          |
| Cash and cash equivalents  | 9     | 48                          | 27                          |
|  |       | <b>280</b>                  | <b>118</b>                  |
| Assets held for sale   |       | <b>1</b>                    | <b>-</b>                    |
| <b>Total assets</b>  |       | <b>888</b>                  | <b>963</b>                  |
| <b>Equity and liabilities</b>  |       |                             |                             |
| <b>Equity attributable to equity holders of the parent</b>                   |       |                             |                             |
| Issued capital   | 14    | -                           | -                           |
| Additional paid-in capital   |       | 388                         | 388                         |
| Reserve capital  | 14    | -                           | -                           |
| Accumulated profits  |       | 316                         | 442                         |
| Unrealized gain on available-for-sale investments                            |       | -                           | 1                           |
| Translation difference   |       | (604)                       | (550)                       |
|  |       | <b>100</b>                  | <b>281</b>                  |
| Non-controlling interests  |       | <b>2</b>                    | <b>3</b>                    |
|  |       | <b>102</b>                  | <b>284</b>                  |
| <b>Non-current liabilities</b>   |       |                             |                             |
| Long-term loans  | 15    | 400                         | 399                         |
| Long-term loans from related parties   | 12    | 83                          | 94                          |
| Deferred income tax liabilities  | 6     | 37                          | 62                          |
| Post-employment benefits liabilities   | 16    | 12                          | 16                          |
| Site restoration provision   | 17    | 5                           | 1                           |
|  |       | <b>537</b>                  | <b>572</b>                  |
| <b>Current liabilities</b>   |       |                             |                             |
| Trade and other payables   | 18    | 38                          | 27                          |
| Short-term loans and current portion of long-term loans                      | 15    | 6                           | 6                           |
| Short-term loans and current portion of long-term loans from related parties | 12    | -                           | 1                           |
| Payables to related parties  | 12    | 189                         | 44                          |
| Other taxes payable  | 19    | 15                          | 27                          |
| Other provisions   | 17    | 1                           | 2                           |
|  |       | <b>249</b>                  | <b>107</b>                  |
| <b>Total equity and liabilities</b>  |       | <b>888</b>                  | <b>963</b>                  |

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

OAO Raspadskaya  
Consolidated cash flow statement  
for the year ended 31 December 2015

|  | Notes | 2015                | 2014                |
|--|-------|---------------------|---------------------|
|  |       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>Operating activities</b>  |       |                     |                     |
| Loss for the period  |       | (126)               | (306)               |
| <i>Adjustments to reconcile net loss to net cash flows from operating activities</i> |       |                     |                     |
| Depreciation, depletion and amortization   | 5     | 44                  | 78                  |
| Deferred income tax benefit  | 6     | (36)                | (86)                |
| Loss on disposal of property, plant and equipment                                    |       | 3                   | -                   |
| Impairment of assets   |       | 66                  | 51                  |
| Foreign exchange losses  |       | 111                 | 264                 |
| Gain from financial assets sale  |       | (1)                 | -                   |
| Interest income  |       | (1)                 | (1)                 |
| Interest expense   |       | 39                  | 40                  |
| Net employee benefit expense   |       | (2)                 | (6)                 |
| Changes in provisions and other long-term assets and liabilities                     |       | (3)                 | 1                   |
|  |       | <u>94</u>           | <u>35</u>           |
| <i>Changes in working capital</i>  |       |                     |                     |
| Inventories  |       | 8                   | 8                   |
| Trade and other receivables  |       | (21)                | 2                   |
| Prepayments  |       | (3)                 | 5                   |
| Receivables from/payables to related parties   |       | 18                  | 65                  |
| Taxes recoverable  |       | (4)                 | (6)                 |
| Trade and other payables   |       | 19                  | (11)                |
| Taxes payable  |       | (7)                 | 20                  |
| <b>Net cash flows from operating activities</b>                                      |       | <u>104</u>          | <u>118</u>          |
| <b>Investing activities</b>  |       |                     |                     |
| Purchases of property, plant and equipment   |       | (36)                | (67)                |
| Proceeds from disposal of property, plant and equipment                              |       | 2                   | 6                   |
| Other investing activities, net  |       | 2                   | 1                   |
| <b>Net cash flows used in investing activities</b>                                   |       | <u>(32)</u>         | <u>(60)</u>         |
| <b>Financing activities</b>  |       |                     |                     |
| Proceeds from loans from related parties   | 12    | 102                 | -                   |
| Repayment of loans from related parties, including interest                          | 12    | (120)               | (10)                |
| Repayment of loans, including interest   |       | (31)                | (31)                |
| <b>Net cash flows used in financing activities</b>                                   |       | <u>(49)</u>         | <u>(41)</u>         |
| Effect of foreign exchange rate changes on cash and cash equivalents                 |       | (2)                 | 4                   |
| <b>Net increase in cash and cash equivalents</b>                                     |       | <u>21</u>           | <u>21</u>           |
| Cash and cash equivalents at the beginning of the year                               |       | <u>27</u>           | <u>6</u>            |
| <b>Cash and cash equivalents at the end of the year</b>                              | 9     | <u>48</u>           | <u>27</u>           |
| <b>Supplementary cash flow information</b>   |       |                     |                     |
| <b>Cash flows during the year:</b>   |       |                     |                     |
| Interest paid  |       | 37                  | 35                  |
| Interest received  |       | -                   | -                   |
| Income tax paid  |       | 8                   | 5                   |

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

OAO Raspadskaya  
Consolidated statement of changes in equity  
for the year ended 31 December 2015

|                                      | Attributable to equity holders of the parent |                                  |                     |                          |  |                           |  |                                  | Total               |
|--------------------------------------|--|----------------------------------|---------------------|--------------------------|--|---------------------------|--|----------------------------------|---------------------|
|                                      | Issued<br>capital                            | Additional<br>paid-in<br>capital | Reserve<br>capital  | Accumula-<br>ted profits | Unrealized<br>gain on<br>available-<br>for-sale<br>investments | Translation<br>difference | Parent<br>share-<br>holders'<br>equity | Non-<br>controlling<br>interests |                     |
|                                      | <i>US\$ million</i>                          | <i>US\$ million</i>              | <i>US\$ million</i> | <i>US\$ million</i>      | <i>US\$ million</i>  | <i>US\$ million</i>       | <i>US\$ million</i>                    | <i>US\$ million</i>              | <i>US\$ million</i> |
| <b>At 31 December 2013</b>           | -  | 388                              | -                   | 741                      | 2  | (250)                     | 881                                    | 5                                | 886                 |
| Loss for the year                    | -  | -                                | -                   | (306)                    | -  | -                         | (306)                                  | -                                | (306)               |
| Other comprehensive<br>income/(loss) | -  | -                                | -                   | 7                        | (1)  | (300)                     | (294)                                  | (2)                              | (296)               |
| <b>Total comprehensive loss</b>      | -  | -                                | -                   | (299)                    | (1)  | (300)                     | (600)                                  | (2)                              | (602)               |
| <b>At 31 December 2014</b>           | -  | 388                              | -                   | 442                      | 1  | (550)                     | 281                                    | 3                                | 284                 |
| Loss for the year                    | -  | -                                | -                   | (126)                    | -  | -                         | (126)                                  | -                                | (126)               |
| Other comprehensive loss             | -  | -                                | -                   | -                        | (1)  | (54)                      | (55)                                   | (1)                              | (56)                |
| <b>Total comprehensive loss</b>      | -  | -                                | -                   | (126)                    | (1)  | (54)                      | (181)                                  | (1)                              | (182)               |
| <b>At 31 December 2015</b>           | -  | 388                              | -                   | 316                      | -  | (604)                     | 100                                    | 2                                | 102                 |

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

# OAO Rospadskaya

## Notes to the consolidated financial statements

for the year ended 31 December 2015

### 1. Corporate information

The consolidated financial statements of OAO Rospadskaya (the "Company") for the year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 23 March 2016.

The Company's controlling shareholder is Corber Enterprises S.a.r.l. (Luxembourg), which owns approximately 81.95% of the Company's shares. Before 21 October 2015 Corber was a 50/50 joint venture of Evraz plc (UK) and Mastercrocft S.a.r.l. (Luxembourg), an indirect subsidiary of Evraz plc (UK). On 21 October 2015 Evraz plc contributed its stake in Corber to Evraz Group S.A.'s shareholders equity. As a result, Corber become a 50/50 joint venture of Mastercrocft S.a.r.l. (Luxembourg) and Evraz Group S.A. (Luxembourg), a direct subsidiary of Evraz plc (UK). Lanebrook Limited (Cyprus) is the ultimate controlling party of the Group. The Company's shares are traded on the Russian stock exchange RTS-MICEX.

The Company and its subsidiaries (the "Group") derive 85% of their revenues from sales of coking coal. Other revenue sources include sales of other goods, transport-handling and other services.

In the years ended 31 December 2015 and 2014, 61% and 40%, respectively, of the Group's revenues were generated in transactions with related parties (Note 12).

The major subsidiaries included in the consolidated financial statements of the Company at 31 December were as follows:

|                                   | <u>Ownership interest</u> |             | <u>Business activity</u>  |
|-----------------------------------|---------------------------|-------------|---------------------------|
|                                   | <u>2015</u>               | <u>2014</u> |                           |
| OAO MUK-96                        | 100%                      | 100%        | Coal mining               |
| ZAO Razrez Rospadskiy             | 100%                      | 100%        | Coal mining               |
| ZAO Rospadskaya-Koksovaya         | 100%                      | 100%        | Coal mining               |
| ZAO Rospadskaya Preparation Plant | 100%                      | 100%        | Coal processing           |
| OOO Rospadskaya Coal Company      | 100%                      | 100%        | Managing and coal trading |
| OOO Rospadskiy Ugol               | -                         | 100%        | Coal trading              |

On 1 December 2015 OOO Rospadskiy Ugol was merged to OOO Rospadskaya Coal Company (before 1 July 2015 AO Rospadskaya Coal Company).

The Group operates as a vertically integrated business and reports its activities as a single business segment. All of the Group's subsidiaries and assets are located and incorporated in Russia. The Group consolidates a Eurobond vehicle – Rospadskaya Securities Limited, a special purpose entity registered in the Republic of Ireland.

### 2. Significant accounting policies

#### ***Basis of preparation***

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits obligations measured at present value.

Notes to the consolidated financial statements (continued)

**2. Significant accounting policies (continued)**

***Basis of preparation (continued)***

These consolidated financial statements are presented in US dollars (US\$) and all values are rounded to the nearest million (US\$ million) except when otherwise stated.

***Going concern***

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In 2015 the Company incurred a net loss of US\$126 million (US\$306 million, in 2014).

The current market and economic conditions create uncertainty over the Group's short-term ability to generate sufficient cash to continue its operation and at the same time fulfill its investment plans. Management proactively addresses these concerns by taking necessary cost optimization measures, postponing certain investing projects and capital repairs, and negotiating additional financing. Consequently, taking into account all related factors management believes that these mitigation measures are supporting appropriateness of use of going concern assumption in the preparation of the consolidated financial statements.

***Changes in accounting policies***

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2015.

***New/revised standards and interpretations adopted in 2015***

▶ ***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

▶ ***Annual improvements 2010-2012 cycle***

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. The amendments relate to IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 24 *Related Party Disclosures*.

▶ ***Annual improvements 2011-2013 cycle***

These improvements were effective for annual periods beginning on or after 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. The amendments relate to IFRS 3 *Business Combinations*, IFRS 13 *Fair Value Measurement* and IAS 40 *Investment Property* and did not have an impact on the financial position or performance of the Group.

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

#### **Changes in accounting policies (continued)**

The new interpretations and amendments described above did not have a significant impact on the financial position or performance of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### *Standards issued but not yet effective*

| <b>Standards not yet effective for the financial statements<br/>for the year ended 31 December 2015</b>                         | <b>Effective for annual periods<br/>beginning on or after</b> |
|---|---|
| ▶ IFRS 14 <i>Regulatory Deferral Accounts</i>   | 1 January 2016  |
| ▶ Amendments to IAS 1 <i>Disclosure Initiative</i>  | 1 January 2016  |
| ▶ Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests</i>   | 1 January 2016  |
| ▶ Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>                   | 1 January 2016  |
| ▶ Amendments to IAS 16 and IAS 41 <i>Bearer Plants</i>  | 1 January 2016  |
| ▶ Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i>  | 1 January 2016  |
| ▶ Amendments to IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exemption</i>                    | 1 January 2016  |
| ▶ Amendments to IAS 7 <i>Disclosure Initiative</i>  | 1 January 2017  |
| ▶ Amendments to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>  | 1 January 2017  |
| ▶ Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | 1 January 2016  |
| ▶ Annual improvements to IFRSs 2012-2014 cycle  | 1 January 2016  |
| ▶ IFRS 15 <i>Revenue from Contracts with Customers</i>  | 1 January 2017  |
| ▶ IFRS 9 <i>Financial Instruments</i>   | 1 January 2018  |
| ▶ IFRS 16 <i>Leases</i>   | 1 January 2019  |

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

#### **Foreign currency transactions**

The presentation currency of these consolidated financial statements is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group is the Russian ruble (the "ruble"). As at the reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to equity as a separate component.

Notes to the consolidated financial statements (continued)

**2. Significant accounting policies (continued)**

***Foreign currency transactions (continued)***

Transactions in foreign currencies in the Group are initially recorded in the functional currency at the rate ruling at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into rubles at the exchange rate ruling at the end of the reporting period. All resulting differences are taken to the consolidated statement of comprehensive income.

***Basis of consolidation***

***Subsidiaries***

Subsidiaries, which are those entities in which the Company has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date when control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

***Acquisition of subsidiaries***

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

# ОАО Респадская

## Notes to the consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

#### ***Basis of consolidation (continued)***

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### ***Increases in ownership interests in subsidiaries***

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in these consolidated financial statements.

#### ***Property, plant and equipment***

The Group's property, plant and equipment, except for the items acquired prior to 1 January 2003, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. The items of property, plant and equipment acquired prior to 1 January 2003 were accounted for at deemed cost being their fair value at 1 January 2003 less subsequent accumulated depreciation and any impairment in value.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalized site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each reporting date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an impairment loss in the statement of comprehensive income. An impairment loss recognized for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. Land and assets under construction are not depreciated. Depreciation on other classes of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets.

Useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The following table sets out useful lives of items of property, plant and equipment.

|                              | <b>Useful lives (years)</b> | <b>Weighted average useful life (years)</b> |
|------------------------------|-----------------------------|---|
| Buildings and constructions  | 15-60                       | 26  |
| Machinery and equipment      | 4-45                        | 12  |
| Transport and motor vehicles | 7-20                        | 6   |
| Other assets                 | 3-15                        | 10  |

# ОАО Респадская

## Notes to the consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

#### ***Property, plant and equipment (continued)***

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

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

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

Exploration and evaluation expenditures represent costs incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The expenditures include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. These costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Group commences recognition of expenditures related to the development of mineral resources as assets. These assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

#### ***Leases***

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

#### ***Financial assets***

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

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Financial assets which are included in this category are subsequently carried at fair value; gains or losses on such financial assets are recognized in income.

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

#### *Financial assets (continued)*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

Financial investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its financial investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale financial investments are measured at fair value with gains or losses being recognized as a separate component of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss. Reversals of impairment losses in respect of equity instruments are not recognized in the statement of comprehensive income. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognized on the settlement date i.e. the date the asset is delivered by/to the counterparty.

#### *Trade and other receivables*

Accounts receivable, which generally are short term, are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

#### ***Inventories***

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

#### ***Value added tax***

Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performance of work or rendering of services, as well as upon collection of prepayments from customers. VAT on purchases, even if related accounts payable have not been settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

#### ***Cash and cash equivalents***

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

#### ***Equity***

##### *Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

##### *Treasury shares*

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognized in statement of comprehensive income on the purchase, sale, issue or cancellation of the treasury shares.

##### *Dividends*

Dividends are recognized as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorized for issue.

Notes to the consolidated financial statements (continued)

**2. Significant accounting policies (continued)**

***Financial liabilities***

*Borrowings*

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

*Accounts payable*

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

***Government grants***

Government grants are recognized at their fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset and are recognized as a deduction from depreciation expense over the life of the asset.

***Provisions***

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Provisions for site restoration costs are capitalized in mining assets within property, plant and equipment.

***Employee benefits***

*Social and pension contributions*

Defined contributions are made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

*Post-employment benefits*

The Group companies provide pensions and other benefits to their employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

# ОАО Респадская

## Notes to the consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

#### ***Employee benefits (continued)***

The Group involves independent qualified actuaries in the measurement of employee benefit obligations.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. It is recorded within interest expense in the consolidated statement of operations.

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

#### ***Other costs***

The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

#### ***Revenue***

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

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

#### ***Sale of goods***

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

#### ***Rendering of services***

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

#### ***Interest***

Interest is recognized using the effective interest method.

Notes to the consolidated financial statements (continued)

**2. Significant accounting policies (continued)**

***Revenue (continued)***

*Dividends*

Revenue is recognized when the Group's right to receive the payment is established.

***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

***Deferred income tax***

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**3. Significant accounting judgments and estimates**

***Estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Impairment of property, plant and equipment***

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In the years ended 31 December 2015 and 2014, US\$66 million and US\$50 million, respectively, were recognized as impairment of property, plant and equipment.

Notes to the consolidated financial statements (continued)

**3. Significant accounting judgments and estimates (continued)**

***Estimation uncertainty (continued)***

*Useful lives of items of property, plant and equipment*

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

*Mineral reserves*

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortization charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

The relative degree of uncertainty can be conveyed by placing reserves into one of the principal classifications, either proved and probable reserves or measured and indicated resources. Proved and probable reserves are more certain to be recovered than measured and indicated resources. Estimates of proved and probable reserves are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, engineering and production data; availability of new data; or changes in underlying assumptions. Proved and probable reserves are used to calculate the unit of production rates for depletion. The Group has included in proved and probable reserves those quantities that are expected to be extracted assuming that certain licenses will be renewed in the future. An increase in the Group's license periods and increase in reported proved and probable reserves would generally lead to lower depletion charge and could materially affect earnings. A reduction in proved and probable reserves will increase depletion charge, reduce income and could also result in an immediate impairment of mining assets. Given the relatively small number of producing mines and open pit operations, it is possible that any changes in reserve estimates, year on year, could significantly affect prospective charges for depletion.

*Site restoration provision*

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

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

*Post-employment benefits*

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). More details on post-employment benefits are provided in Note 16.

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 3. Significant accounting judgments and estimates (continued)

#### *Estimation uncertainty (continued)*

##### *Allowances for doubtful accounts*

The Group makes allowances for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

##### *Current taxes*

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details on current taxes are provided in Note 20.

##### *Deferred income tax assets*

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the statement of comprehensive income.

### 4. Revenue

#### *Distribution of revenue by region*

|              | 2015         |             | 2014         |             |
|--------------|--------------|-------------|--------------|-------------|
|              | Amount       | Portion     | Amount       | Portion     |
|              | US\$ million |             | US\$ million |             |
| Russia       | 267          | 64%         | 271          | 61%         |
| Asia-Pacific | 113          | 27%         | 137          | 31%         |
| Europe       | 39           | 9%          | 35           | 8%          |
|              | <b>419</b>   | <b>100%</b> | <b>443</b>   | <b>100%</b> |

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 4. Revenue (continued)

*Distribution of revenue by customer*

|                | 2015                |             | 2014                |             |
|----------------|---------------------|-------------|---------------------|-------------|
|                | Amount              | Portion     | Amount              | Portion     |
|                | <i>US\$ million</i> |             | <i>US\$ million</i> |             |
| Evraz          | 253                 | 60%         | 171                 | 39%         |
| MMK            | 73                  | 17%         | 61                  | 14%         |
| Uralskaya stal | 41                  | 10%         | 24                  | 5%          |
| Mechel         | 25                  | 6%          | 74                  | 17%         |
| Other          | 27                  | 7%          | 113                 | 25%         |
|                | <b>419</b>          | <b>100%</b> | <b>443</b>          | <b>100%</b> |

### 5. Expenses

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

|   | 2015                | 2014                |
|---|---------------------|---------------------|
|   | <i>US\$ million</i> | <i>US\$ million</i> |
| Cost of inventories recognized as expense | 109                 | 99                  |
| Staff cost, including payroll taxes       | 109                 | 165                 |
| Depreciation, depletion and amortization  | 44                  | 78                  |

### 6. Income tax

*Major components of income tax expense*

|   | 2015                | 2014                |
|---|---------------------|---------------------|
|   | <i>US\$ million</i> | <i>US\$ million</i> |
| Current income tax:   |                     |                     |
| Current income tax charge                                     | (6)                 | (3)                 |
| Deferred income tax:  |                     |                     |
| Relating to origination and reversal of temporary differences | 36                  | 86                  |
| <b>Income tax expense</b>                                     | <b>30</b>           | <b>83</b>           |

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

Reconciliation between the income tax expenses applicable to the profit before income tax at the statutory tax rate to the income tax expense at the Group's effective income tax rate is set out in the following table:

|   | 2015                | 2014                |
|---|---------------------|---------------------|
|   | <i>US\$ million</i> | <i>US\$ million</i> |
| Tax at the Russian statutory income tax rate of 20%                   | 31                  | 78                  |
| Effect of non-taxable income  | 3                   | 8                   |
| Effect of non-deductible expenses and other non-temporary differences | (4)                 | (3)                 |
| <b>Income tax expense</b>   | <b>30</b>           | <b>83</b>           |

OAO Raspadskaya

Notes to the consolidated financial statements (continued)

**6. Income tax (continued)**

*Movement in deferred income tax assets and liabilities*

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

|  | At<br>31 December<br>2014 | Change<br>recognized<br>as income<br>tax expense | Change<br>recognized in<br>other<br>comprehen-<br>sive income | Translation<br>difference | At<br>31 December<br>2013 |
|--|---------------------------|--|---|---------------------------|---------------------------|
|  | <i>US\$ million</i>       | <i>US\$ million</i>                              | <i>US\$ million</i>   | <i>US\$ million</i>       | <i>US\$ million</i>       |
| Deferred income tax liabilities:                       |                           |  |   |                           |                           |
| Property, plant and equipment                          | 68                        | (7)  | -   | (49)                      | 124                       |
| Inventory  | -                         | (1)  | -   | -                         | 1                         |
| Other  | 2                         | (1)  | -   | (2)                       | 5                         |
|  | <b>70</b>                 | <b>(9)</b>                                       | <b>-</b>  | <b>(51)</b>               | <b>130</b>                |
| Deferred income tax assets:                            |                           |  |   |                           |                           |
| Accrued liabilities                                    | 1                         | (2)  | -   | (1)                       | 4                         |
| Loss carry forward                                     | 115                       | 81   | -   | (68)                      | 102                       |
| Other  | -                         | (2)  | -   | -                         | 2                         |
|  | <b>116</b>                | <b>77</b>  | <b>-</b>  | <b>(69)</b>               | <b>108</b>                |
| <b>Total deferred income tax<br/>asset/(liability)</b> | <b>46</b>                 | <b>86</b>  | <b>-</b>  | <b>(18)</b>               | <b>(22)</b>               |
| Represented by the following:                          |                           |  |   |                           |                           |
| Net deferred income tax asset                          | 108                       | 72   | -   | (65)                      | 101                       |
| Net deferred income tax liability                      | 62                        | (14)   | -   | (47)                      | 123                       |

The current tax rate for dividend income in Russia ranges from 0% to 15%, depending on certain conditions. No deferred income tax on distribution of earnings has been provided as the Group does not plan to distribute earnings.

OA O Raspadskaya

Notes to the consolidated financial statements (continued)

7. Property, plant and equipment

|  | 2015                | 2014                |
|--|---------------------|---------------------|
|  | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>                                      |                     |                     |
| Cost:  |                     |                     |
| Mining assets  | 569                 | 616                 |
| Buildings and constructions                                | 65                  | 83                  |
| Machinery and equipment                                    | 244                 | 325                 |
| Transport and motor vehicles                               | 37                  | 54                  |
| Other assets   | 6                   | 9                   |
| Assets under construction                                  | 30                  | 146                 |
|  | <b>951</b>          | <b>1,233</b>        |
| Accumulated depreciation, depletion and impairment losses: |                     |                     |
| Mining assets  | (238)               | (219)               |
| Buildings and constructions                                | (20)                | (21)                |
| Machinery and equipment                                    | (163)               | (212)               |
| Transport and motor vehicles                               | (27)                | (36)                |
| Other assets   | (3)                 | (5)                 |
| Assets under construction                                  | (1)                 | (5)                 |
|  | <b>(452)</b>        | <b>(498)</b>        |
|  | <b>499</b>          | <b>735</b>          |

*Movement in property, plant and equipment*

|   | Mining assets       | Buildings and constructions | Machinery and equipment | Transport and motor vehicles | Other assets        | Assets under construction | Total               |
|---|---------------------|-----------------------------|-------------------------|------------------------------|---------------------|---------------------------|---------------------|
|   | <i>US\$ million</i> | <i>US\$ million</i>         | <i>US\$ million</i>     | <i>US\$ million</i>          | <i>US\$ million</i> | <i>US\$ million</i>       | <i>US\$ million</i> |
| <b>At 31 December 2014, cost, net of accumulated depreciation and depletion</b> | <b>397</b>          | <b>62</b>                   | <b>113</b>              | <b>18</b>                    | <b>4</b>            | <b>141</b>                | <b>735</b>          |
| Additions   | -                   | -                           | -                       | -                            | -                   | 38                        | 38                  |
| Assets put into operation   | 102                 | 2                           | 24                      | 2                            | -                   | (130)                     | -                   |
| Disposals   | -                   | -                           | (6)                     | (1)                          | -                   | (1)                       | (8)                 |
| Depreciation and depletion charge   | (15)                | (3)                         | (20)                    | (6)                          | (1)                 | -                         | (45)                |
| Impairment loss recognised in statement of operations                           | (83)                | (2)                         | (3)                     | -                            | -                   | -                         | (88)                |
| Impairment loss reversed through statement of operations                        | 22                  | -                           | -                       | -                            | -                   | -                         | 22                  |
| Other movements   | -                   | -                           | (1)                     | -                            | -                   | (2)                       | (3)                 |
| Change in site restoration provision  | 4                   | -                           | -                       | -                            | -                   | -                         | 4                   |
| Translation difference  | (96)                | (14)                        | (26)                    | (3)                          | -                   | (17)                      | (156)               |
| <b>At 31 December 2015, cost, net of accumulated depreciation and depletion</b> | <b>331</b>          | <b>45</b>                   | <b>81</b>               | <b>10</b>                    | <b>3</b>            | <b>29</b>                 | <b>499</b>          |
|   | <i>US\$ million</i> | <i>US\$ million</i>         | <i>US\$ million</i>     | <i>US\$ million</i>          | <i>US\$ million</i> | <i>US\$ million</i>       | <i>US\$ million</i> |
| <b>At 31 December 2013, cost, net of accumulated depreciation and depletion</b> | <b>769</b>          | <b>102</b>                  | <b>210</b>              | <b>42</b>                    | <b>10</b>           | <b>241</b>                | <b>1,374</b>        |
| Additions   | -                   | -                           | -                       | -                            | -                   | 68                        | 68                  |
| Assets put into operation   | 15                  | 6                           | 27                      | 6                            | -                   | (54)                      | -                   |
| Disposals   | -                   | -                           | (4)                     | (1)                          | -                   | (1)                       | (6)                 |
| Reclassification  | 2                   | 2                           | 2                       | -                            | (2)                 | (4)                       | -                   |
| Depreciation and depletion charge   | (24)                | (4)                         | (39)                    | (15)                         | (2)                 | -                         | (84)                |
| Impairment loss   | (43)                | -                           | -                       | -                            | -                   | (7)                       | (50)                |
| Change in site restoration provision  | (4)                 | -                           | -                       | -                            | 1                   | -                         | (3)                 |
| Translation difference  | (318)               | (44)                        | (83)                    | (14)                         | (3)                 | (102)                     | (564)               |
| <b>At 31 December 2014, cost, net of accumulated depreciation and depletion</b> | <b>397</b>          | <b>62</b>                   | <b>113</b>              | <b>18</b>                    | <b>4</b>            | <b>141</b>                | <b>735</b>          |

# OAO Raskadskaya

## Notes to the consolidated financial statements (continued)

### 7. Property, plant and equipment (continued)

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US\$1 million and US\$3 million as at 31 December 2015 and 2014 respectively.

The Group had no fixed assets pledged to banks as collateral against loans to the Group and borrowing costs capitalised as at 31 December 2015.

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

For the purpose of the impairment testing as of 31 December 2015 the Group assessed the recoverable amount of each cash-generating unit where indicators of impairment were identified.

The recoverable amounts have been determined based on calculation of value-in-use. Valuation technique used cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash-generating units. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the results of the respective business plans using a zero real growth rate.

The major drivers that led to impairment at the level of cash-generating units were the changes in expectations of forecasted costs, changes in forecasted production volumes and changes in forecasted selling price.

The Group determined that there were indicators of impairment in cash generating units and tested them for impairment using the following assumptions.

|                       | Period of<br>forecast,<br>years | Pre-tax<br>discount<br>rate, % used<br>in 2014 | Pre-tax<br>discount<br>rate, % used<br>in 2015 | Commodity | Average<br>price of<br>commodity<br>per tonne<br>in 2016 |
|-----------------------|---------------------------------|--|--|-----------|--|
| All CGUs of the Group | 19                              | 15.57-16.70                                    | 13.45-16.21                                    | coal      | \$40   |

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

|        | 2015<br><i>US\$ million</i> | 2014<br><i>US\$ million</i> |
|--------|-----------------------------|-----------------------------|
| MUK-96 | 144                         | 209                         |

The Group suspended extraction at the MUK-96 mine in 2015 due to unfavorable conditions on the coal market together with the difficult geological conditions at this mine which have led to relatively high costs of extracting coal. The Group has plans to resume mining in 2020 should prices grow to the extent that commercial production becomes economically viable. As of 30 June 2015 the Group recognized an impairment loss following an impairment test at the level of the cash-generating unit related to MUK-96 in the amount of US\$36 million.

As a result of relative improvement of economic environment in the second half of 2015 and respective reassessment of pre-tax discount rate, cost of production expenses and average selling prices, impairment loss recognised in the first half of 2015 was partially reversed (by US\$22 million).

# ОАО Респадская

## Notes to the consolidated financial statements (continued)

### 7. Property, plant and equipment (continued)

The resulted impairment loss for 2015 was US\$14 million.

In the second half of 2015 the Group also wrote off certain functionally obsolete items of property, plant and equipment belonging to MUK-96 with no plans for further use in the amount of US\$2 million.

The Group identified an increased level of CO at the end of August 2015 near the sealed Shevyakovskaya mine, which was closed after an accident in 1992. This indicated a potential fire in the sealed coal seam. To avoid any potential harm to its employees or a potential detrimental impact on its Rospadskaya-Koksovaya mine operations the Group partially stopped operations at this mine and implemented a range of measures to ensure the safety of employees and ensure that the mining operations are sustainable. As a result, the Group wrote off certain functionally obsolete items of property, plant and equipment with no plans for further use that were located in an isolated and abandoned block of the Rospadskaya-Koksovaya mine in the amount of US\$47 million.

In addition, the Group wrote off certain functionally obsolete items of property, plant and equipment belonging to Rospadskaya mine with no plans for further use in the amount of US\$3 million.

### 8. Other non-current assets

|                                 | <b>2015</b>         | <b>2014</b>         |
|---------------------------------|---------------------|---------------------|
|                                 | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>           |                     |                     |
| Available-for-sale investments: |                     |                     |
| Quoted equity shares            | –                   | 1                   |
|                                 | –                   | 1                   |
| Loans to other companies        | 1                   | –                   |
| Loans to employees              | 1                   | 1                   |
| Emergency inventories           | 3                   | –                   |
|                                 | <b>5</b>            | <b>2</b>            |

### 9. Cash and cash equivalents

|                       | <b>2015</b>         | <b>2014</b>         |
|-----------------------|---------------------|---------------------|
|                       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b> |                     |                     |
| Russian rubles        | 12                  | 4                   |
| US dollars            | 36                  | 23                  |
|                       | <b>48</b>           | <b>27</b>           |

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

### 10. Inventories

|                               | <b>2015</b>         | <b>2014</b>         |
|-------------------------------|---------------------|---------------------|
|                               | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>         |                     |                     |
| Raw materials and spare parts | 11                  | 16                  |
| Work-in-progress              | 9                   | 18                  |
| Finished goods                | 3                   | 5                   |
|                               | <b>23</b>           | <b>39</b>           |

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 10. Inventories (continued)

In 2015, write-down of inventories to net realizable value amounted to US\$6 million. In 2014, reversal of write-down that was recognised as a reduction in the amount of inventories recognised as expense amounted to US\$1 million.

### 11. Trade and other receivables and prepayments

|                                 | 2015                | 2014                |
|---------------------------------|---------------------|---------------------|
|                                 | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>           |                     |                     |
| Trade accounts receivable       | 32                  | 17                  |
| Prepayments                     | 4                   | 2                   |
| Other receivables               | 2                   | 2                   |
|                                 | 38                  | 21                  |
| Allowance for doubtful accounts | -                   | (1)                 |
|                                 | 38                  | 20                  |

### 12. Related party disclosures

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

#### *Transactions with related parties*

|                     | Sales               |                     | Purchases            |                     |
|---------------------|---------------------|---------------------|----------------------|---------------------|
|                     | to related parties  |                     | from related parties |                     |
|                     | 2015                | 2014                | 2015                 | 2014                |
|                     | <i>US\$ million</i> | <i>US\$ million</i> | <i>US\$ million</i>  | <i>US\$ million</i> |
| East Metals A.G.    | 118                 | 80                  | -                    | -                   |
| Yuzhkuzbassugol     | 66                  | 7                   | 30                   | 27                  |
| Evrax ZSMK          | 42                  | 51                  | 1                    | 2                   |
| Evrax DMZ           | 13                  | 14                  | -                    | -                   |
| Evrax NTMK          | 12                  | 10                  | -                    | -                   |
| Evrax Bagleykoks    | 6                   | 9                   | -                    | -                   |
| Southern Kuzbass    | 2                   | 5                   | -                    | -                   |
| Mezhegeyugol        | 1                   | -                   | 5                    | -                   |
| Metallenergofinance | -                   | -                   | 14                   | 20                  |
| SPK                 | -                   | -                   | 2                    | 6                   |
| OUS                 | -                   | -                   | 1                    | 2                   |
| CHOP Interlock      | -                   | -                   | 1                    | 1                   |
| OOO EvrazHolding    | -                   | -                   | 1                    | -                   |
| Inprom              | -                   | -                   | 1                    | -                   |
| Other               | -                   | -                   | 2                    | 7                   |
|                     | 260                 | 176                 | 58                   | 65                  |

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 12. Related party disclosures (continued)

*Amounts owed by/to related parties*

|                       | Amounts due from<br>related parties |                     | Amounts due to<br>related parties |                     |
|-----------------------|-------------------------------------|---------------------|-----------------------------------|---------------------|
|                       | 2015                                | 2014                | 2015                              | 2014                |
|                       | <i>US\$ million</i>                 | <i>US\$ million</i> | <i>US\$ million</i>               | <i>US\$ million</i> |
| <b>At 31 December</b> |                                     |                     |                                   |                     |
| EvrAZ NTMK            | 39                                  | 1                   | -                                 | -                   |
| EvrAZ ZSMK            | 43                                  | 1                   | 1                                 | -                   |
| Yuzhkuzbassugol       | 37                                  | 1                   | 177                               | 14                  |
| East Metals A.G.      | 18                                  | 4                   | -                                 | -                   |
| EvrAZ DMZ             | 10                                  | 1                   | -                                 | -                   |
| EvrAZ Bagleykoks      | 2                                   | 2                   | -                                 | -                   |
| Mezhegeyugol          | 1                                   | -                   | 3                                 | -                   |
| TC EvrazHolding       | -                                   | -                   | 3                                 | 26                  |
| Metallenergofinance   | -                                   | -                   | 3                                 | 2                   |
| OOO EvrazHolding      | -                                   | -                   | 1                                 | -                   |
| Other                 | -                                   | 1                   | 1                                 | 2                   |
|                       | <b>150</b>                          | <b>11</b>           | <b>189</b>                        | <b>44</b>           |

EvrAZ ZSMK (AO EVRAZ United West Siberian Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group sold to the entity raw coal and coal concentrate.

East Metals A.G. is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group sold to the entity coal concentrate.

EvrAZ NTMK (OAO EVRAZ Nizhny Tagil Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group sold to the entity coal concentrate.

EvrAZ DMZ (PAO EVRAZ Dnepropetrovskiy metallurgical plant) is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group sold to the entity coal concentrate.

EvrAZ Bagleykoks (PAO EVRAZ Bagleykoks) is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group sold to the entity coal concentrate.

Yuzhkuzbassugol (OAO United Coal Company "Yuzhkuzbassugol") is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group sold to the entity raw coal. The Group also sales property plant and equipment (PPE) to Yuzhkuzbassugol and purchases PPE from Yuzhkuzbassugol.

From 10 February 2015 AO Raspadskaya Coal Company (RUK) has become managing company for Yuzhkuzbassugol and all coal products of Yuzhkuzbassugol are being sold through RUK. Acting as a trade agent, RUK charges predetermined margins for all those sales from Yuzhkuzbassugol. In addition, from 10 February 2015 RUK purchases all inventories and equipment for Yuzhkuzbassugol.

Metallenergofinance (OOO Metallenergofinance) is an entity under control of Evraz. In the year ended 31 December 2015 and 2014, the Group bought electricity from the entity.

OUS (OOO United Accounting Systems) is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group purchased accounting services from the entity.

Mezhegeyugol (OOO Coal Company Mezhegeyugol) is an entity under control of Evraz. In the year ended 31 December 2015, the Group purchased coal from Mezhegeyugol.

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

# ОАО Респадская

## Notes to the consolidated financial statements (continued)

### 12. Related party disclosures (continued)

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

Inprom (ОАО EVRAZ Metall Inprom) is an entity under control of Evraz. In the years ended 31 December 2015 and 2014, the Group purchased metal products and transport services from the entity.

Southern Kuzbass (ОАО Southern Kuzbass), a Russian coal mining company controlled by ОАО Mechel, is a minority shareholder of a subsidiary of the Group. The subsidiary renders transportation services to the Group and to Southern Kuzbass.

SPK (ООО Constructing Industrial Company) is an entity under control of management of Raspadskaya. The entity renders cleaning and premises maintenance services to the Group.

TC EvrazHolding (ООО Trade Company EvrazHolding) is an entity under control of Evraz. In 2014 the Group bought from TC EvrazHolding certain steel products.

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

In October-November 2015 Evraz Group S.A. bought loan participation notes, issued by the Group with par value US\$8 million from Evraz plc and with par value US\$206 million from third parties. As of 31 December 2015 the amortised cost of notes payable to Evraz Group S.A. amounted to US\$217 million, including accrued interest US\$3 million. Interest expense accrued on bonds hold by Evraz plc and Evraz Group S.A. equals to US\$3 million in 2015.

| Creditor                          | Currency | Final maturity date | Interest rate | Opening balance as at | Principal received  | Interest accrued for the period | Repayment           | Closing balance as at |
|-----------------------------------|----------|---------------------|---------------|-----------------------|---------------------|---------------------------------|---------------------|-----------------------|
|                                   |          |                     |               | 31 December 2014      |                     |                                 |                     | 31 December 2015      |
|                                   |          |                     |               | <i>US\$ million</i>   | <i>US\$ million</i> | <i>US\$ million</i>             | <i>US\$ million</i> | <i>US\$ million</i>   |
| Evraz Greenfield Development S.A. | USD      | 25.09.2015          | 7.0%          | 56                    | 3                   | 3                               | (62)                | -                     |
| Evraz Group S.A.                  | USD      | 25.09.2015          | 7.0%          | 39                    | -                   | 1                               | (40)                | -                     |
| Evraz Group S.A.                  | USD      | 31.08.2020          | 7.82%         | -                     | 83                  | 2                               | (2)                 | 83                    |
| Evraz plc                         | USD      | 25.09.2015          | 7.0%          | -                     | 16                  | -                               | (16)                | -                     |
|                                   |          |                     |               | <b>95</b>             | <b>102</b>          | <b>6</b>                        | <b>(120)</b>        | <b>83</b>             |

| Creditor                          | Currency | Final maturity date | Interest rate | Opening balance as at | Interest accrued for the period | Repayment           | Closing balance as at |
|-----------------------------------|----------|---------------------|---------------|-----------------------|---------------------------------|---------------------|-----------------------|
|                                   |          |                     |               | 31 December 2013      |                                 |                     | 31 December 2014      |
|                                   |          |                     |               | <i>US\$ million</i>   | <i>US\$ million</i>             | <i>US\$ million</i> | <i>US\$ million</i>   |
| Evraz Greenfield Development S.A. | USD      | 31.07.2016          | 4.7%          | 56                    | 3                               | (3)                 | 56                    |
| Evraz Group S.A.                  | USD      | 31.07.2016          | 4.7%          | 45                    | 1                               | (7)                 | 39                    |
|                                   |          |                     |               | <b>101</b>            | <b>4</b>                        | <b>(10)</b>         | <b>95</b>             |

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 12. Related party disclosures (continued)

#### *Compensation to key management personnel*

Key management personnel totalled 8 people and 10 people as at 31 December 2015 and 2014. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following:

|                      | <b>2015</b>         | <b>2014</b>         |
|----------------------|---------------------|---------------------|
|                      | <i>US\$ million</i> | <i>US\$ million</i> |
| Short-term benefits: |                     |                     |
| Salary               | 1                   | 2                   |
| Bonus                | -                   | 2                   |
|                      | <u>1</u>            | <u>4</u>            |

### 13. Other taxes recoverable

|                         | <b>2015</b>         | <b>2014</b>         |
|-------------------------|---------------------|---------------------|
|                         | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>   |                     |                     |
| Other taxes recoverable | 19                  | 20                  |

Other taxes recoverable represent mostly input VAT, which are amounts payable or paid to suppliers, and recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input VAT and believes it is fully recoverable within one year.

### 14. Equity

#### *Share capital*

As at 31 December 2015 and 2014, the Company's issued and fully paid number of shares consisted of 703,191,443 ordinary shares with par value 0.004 rubles each, respectively; the authorized share capital consisted of 1,401,202,730 ordinary shares.

#### *Issued and fully paid shares and treasury shares*

|                            | <b>Number of<br/>issued shares</b> | <b>Issued<br/>capital</b> |
|----------------------------|------------------------------------|---------------------------|
|                            |                                    | <i>US\$000</i>            |
| <b>At 31 December 2014</b> | 703,191,443                        | 273                       |
| <b>At 31 December 2015</b> | <u>703,191,443</u>                 | <u>273</u>                |

#### *Reserve capital*

According to Russian law, the Group creates a reserve capital in the amount of 5% of share capital per Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses and for redemption of the Company's bonds and purchase of own shares if there are no other sources of financing. As of 31 December 2015 and 31 December 2014 reserve capital was US\$7 thousand.

# OA O Raspadskaya

## Notes to the consolidated financial statements (continued)

### 14. Equity (continued)

#### Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. The Company has no potentially dilutive ordinary shares, diluted earnings per share is therefore equal to basic earnings per share.

|   | <u>2015</u>        | <u>2014</u> |
|---|--------------------|-------------|
| Loss for the year attributable to equity holders of the parent, <i>US\$ million</i> | <b>(126)</b>       | (306)       |
| Weighted average number of outstanding ordinary shares                              | <b>703,191,443</b> | 703,191,443 |
| Basic and diluted loss per share, <i>US dollars</i>                                 | <b>(0.18)</b>      | (0.44)      |

#### Dividends

No dividends were declared in 2015 and 2014.

### 15. Loans and borrowings

#### Loans and borrowings by source

|                       | <u>2015</u>         | <u>2014</u>         |
|-----------------------|---------------------|---------------------|
|                       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b> |                     |                     |
| 7.75% notes due 2017  | <b>400</b>          | 399                 |
| Interest payable      | <b>6</b>            | 6                   |
|                       | <b>406</b>          | 405                 |

On 27 April 2012 the Group issued loan participation notes in the amount of US\$400 million. The notes bear an interest of 7.75% per annum payable semi-annually and mature on 27 April 2017. The terms and conditions of the 7.75% notes provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions. As at 31 December 2015 and for the year then ended, the Group complied with all the covenants. The Group may incur additional indebtedness up to US\$100 million.

#### Average annual interest rates

|            | <u>2015</u>  | <u>2014</u> |
|------------|--------------|-------------|
| US dollars | <b>7.75%</b> | 7.75%       |

#### Loans and borrowings by currency

|                       | <u>2015</u>         | <u>2014</u>         |
|-----------------------|---------------------|---------------------|
|                       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b> |                     |                     |
| US dollars            | <b>406</b>          | 405                 |
|                       | <b>406</b>          | 405                 |

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 15. Loans and borrowings (continued)

#### *Loans and borrowings by period of repayment*

|  | <b>2015</b>         | <b>2014</b>         |
|--|---------------------|---------------------|
|  | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>                        |                     |                     |
| Not more than one year                       | <b>6</b>            | 6                   |
| After one year but not more than two years   | <b>400</b>          | -                   |
| After two years but not more than five years | -                   | 399                 |
|  | <b>406</b>          | 405                 |
|  | <b>406</b>          | 405                 |

### 16. Employee benefits

In accordance with collective bargaining agreements, internal regulations and informal practices, the Group provides post-employment benefits (such as regular material support to its retired employees, lump-sum funeral compensations to employees and retired employees, lump-sum payments at retirement) and other long-term benefits (such as lump-sum payments to employees linked to retirement and jubilee ages, survivor's benefits paid for family members of employees and lump-sum funeral compensations to employees in case of death of a family member). These benefits are unfunded and paid directly to the beneficiaries or through Council of Veterans.

The levels of benefits are either salary-based (i.e. depend on the salary of employee at the moment of benefit provision) or fixed (i.e. do not depend on salaries, wages and tariff rates). According to the Group's practices employees' salaries and fixed benefits are indexed for inflation levels (or above). Moreover, some benefits are provided on a life-long basis. Therefore, the plan is exposed to Russian Federation inflation and changes in the life expectancy of the beneficiaries.

Defined contribution plans represent payments made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

In the years ended 31 December 2015 and 2014, the Group's expenses under defined contribution plans amounted to US\$30 million and US\$46 million respectively.

#### *Defined benefit plans*

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

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Discount rate                           | <b>9.6%</b> | 11.0%       |
| Future benefits increases               | <b>8.0%</b> | 8.0%        |
| Future salary increases                 | <b>8.0%</b> | 8.0%        |
| Average life expectation, male, years   | <b>68.5</b> | 68.0        |
| Average life expectation, female, years | <b>78.9</b> | 78.5        |

The Group's defined benefit plan is unfunded.

The components of net benefit expense recognized in the consolidated statement of comprehensive income for the years ended 31 December 2015 and 2014 and amounts recognized in the consolidated statement of financial position as at 31 December 2015 and 2014 for the defined benefit plan were as follows:

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 16. Employee benefits (continued)

*Net benefit expense (recognized in the statement of comprehensive income within cost of sales and general and administrative expenses)*

|  | <b>2015</b>         | <b>2014</b>         |
|--|---------------------|---------------------|
|  | <i>US\$ million</i> | <i>US\$ million</i> |
| Current service cost   | 1                   | 2                   |
| Interest cost on benefit obligation  | 1                   | 3                   |
| Net actuarial (gains)/losses on other long-term employee benefits obligation | -                   | (7)                 |
| Past service cost  | (1)                 | -                   |
|  | <u>1</u>            | <u>(2)</u>          |

*Gains/(losses) recognised in other comprehensive income*

|  | <b>2015</b>         | <b>2014</b>         |
|--|---------------------|---------------------|
|  | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>                                      |                     |                     |
| Net actuarial gains on post-employment benefits obligation | -                   | 7                   |
|  | <u>-</u>            | <u>7</u>            |

*Movements in net benefit liability*

|   | <b>2015</b>         | <b>2014</b>         |
|---|---------------------|---------------------|
|   | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 1 January</b>   | 16                  | 40                  |
| Net benefit expense recognised in the statement of comprehensive income | 1                   | (2)                 |
| (Gains)/losses recognised in other comprehensive income                 | -                   | (7)                 |
| Contributions by employer   | (1)                 | (2)                 |
| Translation difference  | (4)                 | (13)                |
| <b>At 31 December</b>   | <u>12</u>           | <u>16</u>           |

The weighted average duration of the defined benefit obligation was 12.67 and 10.44 years in 2015 and 2014, respectively.

*Movement in benefit obligation*

|  | <b>2015</b>         | <b>2014</b>         |
|--|---------------------|---------------------|
|  | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 1 January</b>  | 16                  | 40                  |
| Interest cost on benefit obligation  | 1                   | 3                   |
| Current service cost   | 1                   | 2                   |
| Past service cost  | (1)                 | -                   |
| Benefits paid  | (1)                 | (2)                 |
| Actuarial (gains)/losses on benefit obligation related to changes in demographic assumptions | (1)                 | -                   |
| Actuarial (gains)/losses on benefit obligation related to changes in financial assumptions   | 2                   | (6)                 |
| Actuarial (gains)/losses on benefit obligation related to experience adjustments             | (1)                 | (8)                 |
| Translation difference   | (4)                 | (13)                |
| <b>At 31 December</b>  | <u>12</u>           | <u>16</u>           |

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 16. Employee benefits (continued)

#### *Changes in the fair value of plan assets*

|                           | <b>2015</b>         | <b>2014</b>         |
|---------------------------|---------------------|---------------------|
|                           | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 1 January</b>       | -                   | -                   |
| Contributions of employer | 1                   | 2                   |
| Benefits paid             | (1)                 | (2)                 |
| <b>At 31 December</b>     | -                   | -                   |

The amount of contributions expected to be paid to the defined benefit plans during 2016 approximates US\$1 million.

The following table demonstrates the sensitivity analysis of reasonable changes in the significant assumptions used for the measurement of the defined benefit obligations, with all other variables held constant.

|   | <b>Increase in assumption</b> | <b>Decrease in assumption</b> |
|---|-------------------------------|-------------------------------|
| <b>Discount rate</b>  |                               |                               |
| Reasonable change in assumption (relative change)             | 10%                           | (10%)                         |
| Impact on the defined benefit obligation, <i>US\$ million</i> | <b>(1)</b>                    | <b>2</b>                      |
| <b>Future benefits increase</b>                               |                               |                               |
| Reasonable change in assumption (relative change)             | 10%                           | (10%)                         |
| Impact on the defined benefit obligation, <i>US\$ million</i> | <b>1</b>                      | <b>(1)</b>                    |
| <b>Future salary increase</b>                                 |                               |                               |
| Reasonable change in assumption (relative change)             | 10%                           | (10%)                         |
| Impact on the defined benefit obligation, <i>US\$ million</i> | -                             | -                             |
| <b>Average life expectation, male, years</b>                  |                               |                               |
| Reasonable change in assumption                               | 1                             | (1)                           |
| Impact on the defined benefit obligation, <i>US\$ million</i> | -                             | -                             |
| <b>Average life expectation, female, years</b>                |                               |                               |
| Reasonable change in assumption                               | 1                             | (1)                           |
| Impact on the defined benefit obligation, <i>US\$ million</i> | -                             | -                             |

### 17. Provisions

At 31 December the provisions were as follows:

|                     | <b>2015</b>         |                     | <b>2014</b>         |                     |
|---------------------|---------------------|---------------------|---------------------|---------------------|
|                     | <b>Non-current</b>  | <b>Current</b>      | <b>Non-current</b>  | <b>Current</b>      |
|                     | <i>US\$ million</i> | <i>US\$ million</i> | <i>US\$ million</i> | <i>US\$ million</i> |
| Site restoration    | 5                   | -                   | 1                   | -                   |
| Longwall provisions | -                   | 1                   | -                   | 2                   |
|                     | 5                   | 1                   | 1                   | 2                   |

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 17. Provisions (continued)

In the years ended 31 December 2015 and 2014, the movement in provisions was as follows:

|   | <b>Site<br/>restoration</b> | <b>Longwall<br/>provisions</b> | <b>Legal<br/>claims</b> | <b>Total</b>        |
|---|-----------------------------|--------------------------------|-------------------------|---------------------|
|   | <i>US\$ million</i>         | <i>US\$ million</i>            | <i>US\$ million</i>     | <i>US\$ million</i> |
| <b>At 1 January 2014</b>                        | 5                           | –                              | 1                       | 6                   |
| Additional provisions                           | –                           | 3                              | –                       | 3                   |
| Increase from passage of time                   | 1                           | –                              | –                       | 1                   |
| Effect of change in the discount rate           | (3)                         | –                              | –                       | (3)                 |
| Effect of changes in estimated costs and timing | (1)                         | –                              | –                       | (1)                 |
| Unused amounts reversed                         | –                           | –                              | (1)                     | (1)                 |
| Translation difference                          | (1)                         | (1)                            | –                       | (2)                 |
| <b>At 31 December 2014</b>                      | <b>1</b>                    | <b>2</b>                       | <b>–</b>                | <b>3</b>            |
| Additional provisions                           | –                           | 4                              | –                       | 4                   |
| Increase from passage of time                   | 1                           | –                              | –                       | 1                   |
| Effect of change in the discount rate           | 2                           | –                              | –                       | 2                   |
| Effect of changes in estimated costs and timing | 2                           | –                              | –                       | 2                   |
| Utilised in the year                            | –                           | (4)                            | –                       | (4)                 |
| Translation difference                          | (1)                         | (1)                            | –                       | (2)                 |
| <b>At 31 December 2015</b>                      | <b>5</b>                    | <b>1</b>                       | <b>–</b>                | <b>6</b>            |

#### *Site restoration costs*

Under Russian law, mining companies have obligations to restore mining sites. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate of 10.0% and 13.5% for the years ended 31 December 2015 and 2014 respectively.

#### *Longwall provisions*

Longwall provisions are provisions for longwall dismantling. They are measured based on estimates of longwall dismantling costs. These provisions are expected to be utilised within 1 year.

### 18. Trade and other payables

|                        | <b>2015</b>         | <b>2014</b>         |
|------------------------|---------------------|---------------------|
|                        | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>  |                     |                     |
| Trade accounts payable | 29                  | 16                  |
| Accrued payroll        | 9                   | 11                  |
|                        | <b>38</b>           | <b>27</b>           |

### 19. Other taxes payable

|                       | <b>2015</b>         | <b>2014</b>         |
|-----------------------|---------------------|---------------------|
|                       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b> |                     |                     |
| VAT                   | 9                   | 19                  |
| Other taxes           | 6                   | 8                   |
|                       | <b>15</b>           | <b>27</b>           |

Notes to the consolidated financial statements (continued)

**20. Commitments and contingencies**

*Operating environment of the Group*

The Group is one of the biggest coking coal producers in Russia. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The global economic recession resulted in a significantly lower demand for steel products and coal and decreased profitability. The economic sanctions imposed on Russia caused the depreciation of national currencies, economic slowdown, deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. In addition, a significant drop in crude oil prices negatively impacted the Russian economy. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. If further sanctions are imposed on Russia, this could have an adverse impact on the Group's business.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The global economic climate continues to be unstable and this may negatively affect the Group's results and financial position in a manner not currently determinable.

*Taxation*

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within Russia suggest that tax authorities are taking a more assertive position in their interpretation of legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, fines and penalties may be assessed.

Management believes that its interpretation of relevant legislation is appropriate and that the Group has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

*Contractual commitments*

The Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US\$7 million as at 31 December 2015.

*Social commitments*

The Group is involved in a number of social programs aimed to support education, health care and social infrastructure development in the towns where the Group's assets are located. In 2016 the Group plans to spend US\$2 million under these programs.

*Environmental protection*

The Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on the Group's financial position or results of operations. Under the Plan on environmental protection authorized by management, the Group expects to spend US\$6 million in the years 2016-2022.

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 20. Commitments and contingencies (continued)

#### *Insurance policies*

The Group maintains obligatory insurance policies required by Russian law. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

### 21. Financial risks management objectives and policies

#### *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial assets that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable. To manage credit risk related to cash, the Group maintains its available cash, mainly in Russian rubles in major Russian state banks and reputable Russian affiliates of international banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a limited number of customers, to whom the Group sells on credit terms. The Group has developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed in the following table:

|  | <b>2015</b>         | <b>2014</b>         |
|--|---------------------|---------------------|
|  | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>                                      |                     |                     |
| Financial instruments (Note 8)                             | –                   | 1                   |
| Long-term receivables (Note 8)                             | <b>2</b>            | 1                   |
| Trade and other receivables                                | <b>34</b>           | 18                  |
| Receivables from related parties                           | <b>150</b>          | 11                  |
| Short-term investments, cash and cash equivalents (Note 9) | <b>48</b>           | 27                  |
|  | <b>234</b>          | 58                  |

#### *Ageing analysis of trade and other receivables*

|                        | <b>2015</b>         |                     | <b>2014</b>         |                     |
|------------------------|---------------------|---------------------|---------------------|---------------------|
|                        | <b>Gross amount</b> | <b>Impairment</b>   | <b>Gross amount</b> | <b>Impairment</b>   |
|                        | <i>US\$ million</i> | <i>US\$ million</i> | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b>  |                     |                     |                     |                     |
| Not past due           | <b>92</b>           | –                   | 27                  | –                   |
| Past due:              |                     |                     |                     |                     |
| not more than 6 months | <b>90</b>           | –                   | 2                   | –                   |
| more than 6 months     | <b>4</b>            | –                   | 1                   | –                   |
|                        | <b>186</b>          | –                   | 30                  | –                   |

#### *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

# OAO Raspadskaya

## Notes to the consolidated financial statements (continued)

### 21. Financial risks management objectives and policies (continued)

#### *Liquidity risk (continued)*

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group prepares a detailed financial plan on the monthly basis which ensures that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days.

All of the Group's financial liabilities are non-derivative financial instruments.

The following two tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

|                                  | <b>Not more<br/>than 1 year</b> | <b>1 to<br/>2 years</b> | <b>2 to<br/>5 years</b> | <b>Total</b>        |
|----------------------------------|---------------------------------|-------------------------|-------------------------|---------------------|
|                                  | <i>US\$ million</i>             | <i>US\$ million</i>     | <i>US\$ million</i>     | <i>US\$ million</i> |
| <b>At 31 December 2015</b>       |                                 |                         |                         |                     |
| <b>Fixed-rate debt</b>           |                                 |                         |                         |                     |
| Loans and borrowings:            |                                 |                         |                         |                     |
| Principal                        | –                               | 400                     | 83                      | 483                 |
| Interest                         | 37                              | 22                      | 17                      | 76                  |
|                                  | <b>37</b>                       | <b>422</b>              | <b>100</b>              | <b>559</b>          |
| <b>Non-interest bearing debt</b> |                                 |                         |                         |                     |
| Trade and other payables         | 29                              | –                       | –                       | 29                  |
| Payables to related parties      | 187                             | –                       | –                       | 187                 |
|                                  | <b>216</b>                      | <b>–</b>                | <b>–</b>                | <b>216</b>          |
|                                  | <b>253</b>                      | <b>422</b>              | <b>100</b>              | <b>775</b>          |
| <br>                             |                                 |                         |                         |                     |
|                                  | <b>Not more<br/>than 1 year</b> | <b>1 to<br/>2 years</b> | <b>2 to<br/>5 years</b> | <b>Total</b>        |
|                                  | <i>US\$ million</i>             | <i>US\$ million</i>     | <i>US\$ million</i>     | <i>US\$ million</i> |
| <b>At 31 December 2014</b>       |                                 |                         |                         |                     |
| <b>Fixed-rate debt</b>           |                                 |                         |                         |                     |
| Loans and borrowings:            |                                 |                         |                         |                     |
| Principal                        | –                               | 94                      | 400                     | 494                 |
| Interest                         | 35                              | 35                      | 16                      | 86                  |
|                                  | <b>35</b>                       | <b>129</b>              | <b>416</b>              | <b>580</b>          |
| <b>Non-interest bearing debt</b> |                                 |                         |                         |                     |
| Trade and other payables         | 16                              | –                       | –                       | 16                  |
| Payables to related parties      | 44                              | –                       | –                       | 44                  |
|                                  | <b>60</b>                       | <b>–</b>                | <b>–</b>                | <b>60</b>           |
|                                  | <b>95</b>                       | <b>129</b>              | <b>416</b>              | <b>640</b>          |

Payables to related parties in the tables above do not include advances received in the amount of \$2 million, and \$Nil as of 31 December 2015 and 2014, respectively.

#### *Currency risk*

The Group is exposed to currency risk on sales, purchases, deposits and borrowings that are denominated in a currency other than the Group's functional currency. The currencies in which these transactions are primarily denominated are US dollars and euro.

# ОАО Raspadskaya

## Notes to the consolidated financial statements (continued)

### 21. Financial risks management objectives and policies (continued)

#### *Currency risk (continued)*

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

The Group's exposure to currency risk determined as the net monetary position in respective currencies is set out in the following table:

|                       | <b>2015</b>         | <b>2014</b>         |
|-----------------------|---------------------|---------------------|
|                       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b> |                     |                     |
| USD/RUB               | <b>(424)</b>        | (471)               |
| EUR/RUB               | <b>(2)</b>          | -                   |

#### *Sensitivity analysis*

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change, the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period:

|         | <b>2015</b>                            |  | <b>2014</b>                            |  |
|---------|--|--|--|--|
|         | <b>Change in<br/>exchange<br/>rate</b> | <b>Effect<br/>on profit<br/>before tax</b> | <b>Change in<br/>exchange<br/>rate</b> | <b>Effect<br/>on profit<br/>before tax</b> |
|         |  | <i>US\$ million</i>                        |  | <i>US\$ million</i>                        |
| USD/RUB | <b>(13.00)</b><br><b>40.00</b>         | <b>55</b><br><b>(170)</b>                  | (28.74)<br>28.74                       | 135<br>(135)                               |
| EUR/RUB | <b>(15.00)</b><br><b>43.00</b>         | -<br><b>(1)</b>                            | (29.58)<br>29.58                       | -<br>-                                     |

#### *Interest rate risk*

The Group incurs interest rate risk on loans and borrowings. The Group borrows on fixed rate basis only.

The following table summarizes the Group's outstanding interest-bearing debt:

|                       | <b>2015</b>         | <b>2014</b>         |
|-----------------------|---------------------|---------------------|
|                       | <i>US\$ million</i> | <i>US\$ million</i> |
| <b>At 31 December</b> |                     |                     |
| Fixed-rate debt       | <b>483</b>          | 493                 |
|                       | <b>483</b>          | 493                 |

#### *Capital management*

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder wealth. There were no changes in the objectives, policies and processes of the Group's capital management during 2015.

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments and purchase of treasury shares.

# ОАО Респдская

## Notes to the consolidated financial statements (continued)

### **21. Financial risks management objectives and policies (continued)**

#### *Fair value of financial instruments*

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, variable rate short-term and variable rate long-term loans payable approximate their fair value.

Fair value of 7.75% notes due in 2017 with carrying amount US\$406 million is determined by reference to published price quotations in an active market and amounts to US\$410 million.

Fair value of 7.82% loan from Evraz Group S.A due in 2020 with carrying amount US\$83 million is determined by using discounting cash flow model and amounted to US\$78 million. Interest rate applied for fair value calculation was determined based on yields of Rеспдская bonds and Evraz plc bonds with similar maturity.

### **22. Events after the reporting period**

In 2016 Evraz Group S.A. bought loan participation notes, issued by the Group in 2012, with par value US\$80 million.