

**ОАО Распадская**

Unaudited interim condensed  
consolidated financial statements

*Six-month period ended 30 June 2015*

# ОАО Raspadskaya

## Unaudited interim condensed consolidated financial statements

Six-month period ended 30 June 2015

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## Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors of  
OAO Raspadskaya

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of OAO Raspadskaya and its subsidiaries ("the Group"), comprising the interim condensed consolidated statement of financial position as at 30 June 2015 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



3 September 2015

Moscow, Russia

ОАО Raspadskaya

Unaudited interim consolidated statement of comprehensive income

Six-month period ended 30 June

	Notes	2015 US\$000	2014 US\$000
<b>Revenue</b>			
Sales of goods		220,687	241,243
Other sales		7,113	3,569
		<b>227,800</b>	<b>244,812</b>
Cost of sales		<b>(157,265)</b>	<b>(246,188)</b>
<b>Gross profit/(loss)</b>		<b>70,535</b>	<b>(1,376)</b>
Selling and distribution costs		<b>(10,568)</b>	(12,488)
General and administrative expenses		<b>(16,628)</b>	(28,175)
Social expenses		<b>(176)</b>	(922)
Gain/(loss) on disposal of property, plant and equipment		<b>238</b>	(1,376)
Impairment of assets	4	<b>(36,767)</b>	(893)
Foreign exchange gain/(loss)		<b>4,042</b>	(12,925)
Other operating income		<b>745</b>	1,038
Other operating expenses		<b>(2,294)</b>	(7,116)
<b>Operating gain/(loss)</b>		<b>9,127</b>	<b>(64,233)</b>
Gain from financial assets sale		<b>855</b>	–
Interest income		<b>203</b>	419
Interest expense		<b>(18,904)</b>	(19,620)
<b>Loss before income tax</b>		<b>(8,719)</b>	<b>(83,434)</b>
Income tax effect	3	<b>339</b>	16,038
<b>Loss for the period</b>		<b>(8,380)</b>	<b>(67,396)</b>
<b>Other comprehensive income</b>			
Effect of translation to presentation currency		<b>3,242</b>	(26,497)
Net loss on available-for-sale financial assets		<b>(721)</b>	(360)
Income tax effect		<b>144</b>	–
Other comprehensive income/(loss) for the period, net of tax		<b>2,665</b>	(26,857)
<b>Total comprehensive loss for the period, net of tax</b>		<b>(5,715)</b>	<b>(94,253)</b>
<i>Profit/(loss) for the period attributable to:</i>			
Equity holders of the parent		<b>(8,442)</b>	(67,653)
Non-controlling interests		<b>62</b>	257
		<b>(8,380)</b>	<b>(67,396)</b>
<i>Total comprehensive income/(loss) for the period attributable to:</i>			
Equity holders of the parent		<b>(5,818)</b>	(94,391)
Non-controlling interests		<b>103</b>	138
		<b>(5,715)</b>	<b>(94,253)</b>
<b>Loss per share</b>			
basic and diluted, for loss for the period attributable to equity holders of the parent, US dollars ((0.71) rubles and (3.37) rubles for the six-month periods ended 30 June 2015 and 2014 respectively)	8	<b>(0.01)</b>	(0.10)

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

OAO Raspadskaya

Unaudited interim consolidated statement of financial position

30 June 2015

	Notes	30 June 2015 US\$000	31 December 2014 US\$000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	704,382	735,111
Deferred income tax asset		103,840	107,891
Other non-current assets		2,803	2,429
		811,025	845,431
<b>Current assets</b>			
Inventories	5	46,668	38,943
Trade and other receivables		39,500	17,956
Prepayments		3,367	1,776
Receivables from related parties	7	85,107	10,821
Income tax receivable		1,477	696
Other taxes recoverable		19,767	20,838
Cash and cash equivalents	6	15,496	26,520
		211,382	117,550
<b>Total assets</b>		1,022,407	962,981
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	8	273	273
Additional paid-in capital		387,790	387,790
Reserve capital	8	7	7
Accumulated profits		433,716	442,158
Unrealized gain on available-for-sale investments		–	577
Translation difference		(546,979)	(550,180)
		274,807	280,625
Non-controlling interests		3,050	2,947
		277,857	283,572
<b>Non-current liabilities</b>			
Long-term loans	9	399,205	398,999
Long-term loans from related parties	7	79,740	94,000
Deferred income tax liabilities		55,782	61,922
Post-employment benefits liabilities		17,261	16,016
Site restoration provision		5,305	1,245
Other long-term liabilities		–	277
		557,293	572,459
<b>Current liabilities</b>			
Trade and other payables		49,542	27,449
Advances from customers		313	168
Short-term loans and current portion of long-term loans	9	5,384	5,511
Short-term loans and current portion of long-term loans from related parties	7	1,947	1,367
Payables to related parties	7	109,187	43,458
Income tax payable		192	357
Other taxes payable		18,737	26,610
Other provisions		1,955	2,030
		187,257	106,950
<b>Total equity and liabilities</b>		1,022,407	962,981

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

OAO Raspadskaya

Unaudited interim consolidated statement of cash flows

Six-month period ended 30 June

	Notes	2015 US\$000	2014 US\$000
<b>Operating activities</b>			
Loss for the period		(8,380)	(67,396)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation, depletion and amortization		25,164	40,721
Deferred income tax benefit	3	(1,291)	(18,871)
Loss/(gain) on disposal of property, plant and equipment		(238)	1,376
Impairment of assets	4	36,767	893
Foreign exchange loss/(gain)		(4,042)	12,925
Gain from financial assets sale		(855)	–
Interest income		(203)	(419)
Interest expense		18,904	19,620
Net employee benefit expense/(profit)		137	905
Change in bad debt allowance		98	103
Changes in provisions and other long-term assets and liabilities		(1,145)	(1,424)
		<b>64,916</b>	<b>(11,567)</b>
<b>Changes in working capital</b>			
Inventories		(7,655)	30,254
Trade and other receivables		(19,820)	(6,314)
Prepayments		(1,530)	5,261
Receivables from/(payables to) related parties		(13,100)	35,851
Taxes receivable		556	(14,739)
Trade and other payables		21,081	4,624
Advances from customers		139	(8)
Taxes payable		(8,120)	14,815
<b>Net cash flows from operating activities</b>		<b>36,467</b>	<b>58,177</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(20,573)	(32,679)
Proceeds from disposal of property plant and equipment		1,053	32
Other investing activities, net		1,343	638
<b>Net cash flows used in investing activities</b>		<b>(18,177)</b>	<b>(32,009)</b>
<b>Financing activities</b>			
Proceeds from loans, related parties	7	18,800	–
Repayment of loans, including interest		(15,500)	(15,500)
Repayment of loans, including interest, related parties	7	(34,859)	(7,804)
<b>Net cash flows used in financing activities</b>		<b>(31,559)</b>	<b>(23,304)</b>
Effect of foreign exchange rate changes on cash and cash equivalents		2,245	(303)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(11,024)</b>	<b>2,561</b>
Cash and cash equivalents at the beginning of the period		26,520	5,656
<b>Cash and cash equivalents at the end of the period</b>		<b>15,496</b>	<b>8,217</b>
<b>Supplementary cash flow information</b>			
Cash flows during the period:			
Interest paid		17,299	17,304
Interest received		34	228
Income tax paid		1,694	1,501

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

OA0 Raspadskaya

Unaudited interim consolidated statement of changes in equity

Six-month period ended 30 June 2015

	Attributable to equity holders of the parent								
	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Unrealized gain on available-for-sale investments	Translation difference	Parent shareholders' equity	Non-controlling interests	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>At 31 December 2013</b>	273	387,790	7	741,417	1,851	(250,038)	881,300	4,791	886,091
Profit/(loss) for the period	–	–	–	(67,653)	–	–	(67,653)	257	(67,396)
Other comprehensive loss	–	–	–	–	(360)	(26,378)	(26,738)	(119)	(26,857)
<b>Total comprehensive profit/(loss)</b>	–	–	–	(67,653)	(360)	(26,378)	(94,391)	138	(94,253)
<b>At 30 June 2014</b>	273	387,790	7	673,764	1,491	(276,416)	786,909	4,929	791,838
<b>At 31 December 2014</b>	273	387,790	7	442,158	577	(550,180)	280,625	2,947	283,572
Profit/(loss) for the period	–	–	–	(8,442)	–	–	(8,442)	62	(8,380)
Other comprehensive profit/(loss)	–	–	–	–	(577)	3,201	2,624	41	2,665
<b>Total comprehensive profit/(loss)</b>	–	–	–	(8,442)	(577)	3,201	(5,818)	103	(5,715)
<b>At 30 June 2015</b>	273	387,790	7	433,716	–	(546,979)	274,807	3,050	277,857

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

# OAO RASPADSKAYA

## Notes to the unaudited interim condensed consolidated financial statements

Six-month period ended 30 June 2015

### 1. Corporate information

The unaudited interim condensed consolidated financial statements of OAO RASPADSKAYA (the "Company") for the six-month period ended 30 June 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 3 September 2015.

The Company's controlling shareholder is Corber Enterprises S.a.r.l. (Luxembourg), which owns approximately 81.95% of the Company's shares. Corber is a 50/50 joint venture of EVRAZ plc (UK) and Mastercroft S.a.r.l. (Luxembourg), an indirect subsidiary of EVRAZ plc. 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 90% and 98% of their revenues from sales of coking coal in the six-month periods ended 30 June 2015 and 2014, respectively. Other revenue sources include sales of other goods, transport-handling and other services.

61% and 33% of the Group's revenue was generated in transactions with related parties in the six-month periods ended 30 June 2015 and 2014, respectively (Note 7).

### 2. Significant accounting policies

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

The interim condensed consolidated financial statements for the six-month period ended 30 June 2015 have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2014.

The interim condensed consolidated financial statements are presented in US dollars (US\$) and all amounts are rounded to the nearest thousand (US\$000) except when otherwise stated.

#### ***Going concern***

These interim condensed 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. For the six-month period ended 30 June 2015 the Company incurred a net loss of \$8 million (\$67 million, for the six-month period ended 30 June 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 to fulfill its investment plans. Management proactively addresses these concerns by taking necessary cost optimization measures, postponing certain investing projects and capital repairs. 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***

The accounting policies adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as at 1 January 2015.



# OAO Raspadskaya

## Notes to the unaudited interim condensed consolidated financial statements (continued)

### 2. Significant accounting policies (continued)

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

##### *Annual Improvements to IFRSs 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed 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.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### 3. Income tax

#### *Major components of income tax*

	Six-month periods ended 30 June	
	2015	2014
	<i>US\$000</i>	<i>US\$000</i>
<i>Current income tax:</i>		
Current income tax charge	(940)	(2,833)
Adjustments in respect of income tax of prior years	(12)	–
<i>Deferred income tax:</i>		
Relating to origination and reversal of temporary differences	1,291	18,871
	339	16,038

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

### 4. Property, plant and equipment

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US\$640,000 and US\$3,137,000 as at 30 June 2015 and 31 December 2014 respectively.

#### *Movement in property, plant and equipment*

	<b>Land</b>	<b>Mining assets</b>	<b>Buildings and construc- tions</b>	<b>Machinery and equipment</b>	<b>Transport and motor vehicles</b>	<b>Other assets</b>	<b>Assets under construc- tion</b>	<b>Total</b>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
<b>At 31 December 2014, cost, net of accumulated depreciation, depletion and government grants</b>	52	397,145	61,689	113,204	18,055	3,938	141,028	735,111
Additions	358	–	–	–	–	–	20,733	21,091
Assets put into operation	–	98,912	3,189	11,741	387	201	(114,430)	–
Disposals	–	–	(12)	(1,379)	(128)	(26)	(210)	(1,755)
Reclassification	–	–	(59)	(47)	(19)	(45)	170	–
Depreciation and depletion charge	–	(9,213)	(1,824)	(10,866)	(3,191)	(335)	–	(25,429)
Impairment loss	–	(35,794)	(44)	(80)	(20)	(1)	(935)	(36,874)
Change in site restoration provision	–	3,455	–	–	–	375	–	3,830
Translation difference	13	7,185	862	1,477	138	58	(1,325)	8,408
<b>At 30 June 2015, cost, net of accumulated depreciation, depletion and government grants</b>	423	461,690	63,801	114,050	15,222	4,165	45,031	704,382

# OAO Raspadskaya

## Notes to the unaudited interim condensed consolidated financial statements (continued)

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

Management performed impairment test for individual items of PPE as well as for cash generating units with indication of potential impairment and recognized impairment loss in amount of US\$36,874,000 that relates mostly to MUK-96 mining assets impairment.

### 5. Inventories

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>US\$000</i>	<i>US\$000</i>
Raw materials and spare parts	<b>18,200</b>	15,493
Work-in-progress	<b>22,364</b>	18,439
Finished goods	<b>6,104</b>	5,011
	<b>46,668</b>	38,943

In the six-month period ended 30 June 2015, write-down of inventories to net realizable value amounted to US\$2,966,000.

### 6. Cash and cash equivalents

*Cash and cash equivalents*

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>US\$000</i>	<i>US\$000</i>
Russian rubles	<b>1,531</b>	3,634
US dollars	<b>13,965</b>	22,886
	<b>15,496</b>	26,520

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

### 7. 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.

OA0 Raspadskaya

Notes to the unaudited interim condensed consolidated financial statements  
(continued)

7. Related party disclosures (continued)

*Transactions with related parties*

	Sales to related parties		Purchases from related parties	
	Six-month periods ended 30 June		Six-month periods ended 30 June	
	2015	2014	2015	2014
	US\$000	US\$000	US\$000	US\$000
East Metals A.G.	65,610	24,577	–	–
Yuzhkuzbassugol	21,969	3,401	19,657	2,384
EvrAZ ZSMK	35,138	32,535	127	1,513
EvrAZ DMZ	7,345	6,524	–	–
EvrAZ NTMK	4,613	5,940	–	–
EvrAZ Bagleykoks	4,215	4,083	–	–
Southern Kuzbass	1,043	2,689	13	–
OUS	58	171	738	1,051
Stroitelno-Proizvodstvenaya company	9	165	1,050	3,400
Mezhegeyugol	4	–	5,281	–
Metallenergofinance	–	–	7,352	9,843
OOO EvrazHolding	–	–	618	–
Port Nakhodka	–	–	61	5,849
CHOP Interlock	4	–	705	–
Other entities	8	24	931	413
	<b>140,016</b>	<b>80,109</b>	<b>36,533</b>	<b>24,453</b>

*Amounts owed by/to related parties*

	Amounts due from related parties		Amounts due to related parties	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
	US\$000	US\$000	US\$000	US\$000
EvrAZ NTMK	23,007	1,120	–	–
EvrAZ ZSMK	16,026	1,152	189	–
Yuzhkuzbassugol	15,159	1,216	87,636	13,634
East Metals A.G.	14,931	4,161	–	–
EvrAZ DMZ	11,375	983	–	–
EvrAZ Bagleykoks	4,030	1,678	–	–
Stroitelno-Proizvodstvenaya company	37	124	717	813
Mezhegeyugol	5	1	6,082	–
OUS	5	17	601	447
TC EvrazHolding	1	1	10,440	25,719
Metallenergofinance	–	–	2,051	2,434
OOO EvrazHolding	–	–	755	–
Other entities	531	368	716	411
	<b>85,107</b>	<b>10,821</b>	<b>109,187</b>	<b>43,458</b>

OOO Coal Company Mezhegeyugol (Mezhegeyugol) is an entity under control of Evraz. In the six-month period ended 30 June 2015, the Group purchased coal from Mezhegeyugol.

CHOP Interlock is an entity under control of key management of the Company parent. In the six-month period ended 30 June 2015 the Group purchased security services from CHOP Interlock.

OOO EvrazHolding is an entity under control of Evraz. In the six-month period ended 30 June 2015, the Group purchased ongoing consulting and treasury management services from OOO EvrazHolding.

# OAO Raspadskaya

## Notes to the unaudited interim condensed consolidated financial statements (continued)

### 7. Related party disclosures (continued)

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

On 15 December 2014 Evraz plc bought loan participation notes, issued by the Group with par value amounting to US\$7,700,000. As of June 30, 2015 the amortised cost of notes payable to Evraz plc amounted to US\$7,787,000. Interest expense accrued on this notes equals to US\$296,000 in the six-month period ended 30 June 2015.

#### *Loans from related parties*

Creditor	Curren- cy	Final maturity date	Interest rate	Opening	Principal received	Interest	Repayment	Closing
				balance as at 31 Dec 2014		accrued for the period	for the period	balance as at 30 June 2015
				US\$000	US\$000	US\$000	US\$000	US\$000
Evraz Greenfield Development S.A.	USD	31/03/2017	7.00%	55,800	2,800	1,578	(1,020)	59,158
Evraz Group S.A.	USD	31/03/2018	7.00%	39,567	–	737	(33,775)	6,529
EVRAZ plc	USD	30/04/2018	7.00%	–	16,000	64	(64)	16,000
				<b>95,367</b>	<b>18,800</b>	<b>2,379</b>	<b>(34,859)</b>	<b>81,687</b>

#### *Compensation to key management personnel*

Key management personnel totalled 10 people as at 30 June 2015 and 9 people as at 30 June 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:

	Six-month period ended 30 June	
	2015	2014
	US\$000	US\$000
Short-term benefits:		
Salary	373	3,183
Bonus	414	–
Payroll taxes	64	357
	<b>851</b>	<b>3,540</b>

### 8. Equity

#### *Share capital*

As at 30 June 2015 and 31 December 2014, the Company's issued and fully paid share capital consisted of 703,191,443 ordinary shares with par value 0.004 rubles each; the authorized share capital consisted of 1,401,202,730 ordinary shares.

#### *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.

# OAO Raspadskaya

## Notes to the unaudited interim condensed consolidated financial statements (continued)

### 8. 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.

	<b>Six-month period ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
Loss for the period attributable to equity holders of the parent, <i>US\$000</i>	<b>(8,442)</b>	(67,653)
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>(0.01)</b>	(0.10)

#### *Dividends*

On 21 May 2015 shareholders of the Company approved no final dividends for 2014.

### 9. Loans and borrowings

#### *Loans and borrowings by source*

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<i>US\$000</i>	<i>US\$000</i>
7.75% notes due 2017	<b>399,205</b>	398,999
Interest payable	<b>5,384</b>	5,511
	<b>404,589</b>	404,510

On 27 April 2012 the Group issued loan participation notes amounting to US\$400,000,000. 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 30 June 2015 and for the period then ended, the Group complied with all the covenants.

### 10. Commitments and contingencies

#### *Operating environment of the Group*

The Group is one of the biggest coking coal producers in Russia. Russia is considered to be developing market with higher economic and political risks. Coking coal consumption is affected by the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions.

The global economic recession resulted in a significantly lower demand for coal products and decreased profitability. In addition, the political crisis over Ukraine led to an additional uncertainty in the global economy. The unrest in the Southeastern region of Ukraine and 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, the decreased crude oil prices have a negative impact on 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 the Ukrainian crisis broadens and further sanctions are imposed on Russia, this could have an adverse impact on the Group's business.

## ОАО Raspadskaya

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### **10. Commitments and contingencies (continued)**

##### *Operating environment of the Group (continued)*

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 in the amount of US\$9,906,000 as at 30 June 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 the second half of 2015 the Group plans to spend US\$1,759,000 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 the Group expects to spend US\$8,014,000 in the years 2015-2019.

##### *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.

## ОАО Респадская

### Notes to the unaudited interim condensed consolidated financial statements (continued)

#### **11. 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\$404,589,000 at 30 June 2015 is determined by reference to published price quotations in an active market and amounts to US\$381,963,000.

#### **12. Subsequent events**

АО Респадская Coal Company (RUK) was reregistered as ООО RUK on 1 July 2015.

In the end of August the Company identified increased level of CO near the sealed Shevyakovskaya mine, that was closed after the accident in 1992, indicating potential fire in sealed coal seam. To avoid any potential harm to its employees and potential detrimental effect on its Респадская-Koksovaya mine operations the Company partially stopped its operations at the mine and plan to implement a range of measures to insure employees safety and sustainable mining operation. These activities are expected to continue till the end of December and at this early stage are estimated to cost US\$5 million.