Report on Review of Interim Financial Information

PJSC Raspadskaya and its subsidiaries

for the six-month period ended 30 June 2017

August 2017

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To the shareholders and Board of Directors of
PJSC Raspadskaya

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC Raspadskaya and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2017 and the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes (interim financial information). Management of PJSC Raspadskaya is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

E.E. ZLOKAZOVA
Partner
Ernst & Young LLC

24 August 2017

Details of the entity

Name: PJSC Raspadskaya
Record made in the State Register of Legal Entities on 6 November 2002, State Registration Number 1024201389772.
Address: Russia 652870, Mezhdurechensk, Mira, 106.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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PJSC Raspadskaya

Unaudited interim condensed consolidated statement of comprehensive income

Six-month period ended 30 June

	Notes	2017	2016
		US$million	*US$million*
Revenue			
Sales of goods		**416**	178
Rendering of services		**23**	15
		439	193
Cost of sales		**(198)**	(133)
Gross profit		**241**	60
Selling and distribution costs		**(16)**	(8)
General and administrative expenses		**(12)**	(10)
Reversal of impairment/(impairment) of assets	4	**1**	(11)
Foreign exchange gain		**15**	57
Other operating expenses		**(4)**	(7)
Operating profit		**225**	81
Interest income		**1**	–
Interest expense		**(15)**	(19)
Profit before income tax		**211**	62
Income tax	3	**(43)**	(13)
Net profit for the period		**168**	49
Other comprehensive income			
Effect of translation to presentation currency		**6**	19
Other comprehensive income for the period, net of tax		**6**	19
Total comprehensive income for the period, net of tax		**174**	68
Profit for the period attributable to:			
Equity holders of the parent		**168**	49
Non-controlling interests		**–**	–
		168	49
Total comprehensive income for the period attributable to:			
Equity holders of the parent		**174**	67
Non-controlling interests		**–**	1
		174	68
Earnings per share			
Basic and diluted, for profit for the period attributable to equity holders of the parent, US dollars (13.87 rubles and 4.92 rubles for the six-month periods ended 30 June 2017 and 2016 respectively)	8	**0.24**	0.07

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

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PJSC Raspadskaya

Unaudited interim condensed consolidated statement of financial position

30 June 2017

	Notes	30 June 2017	31 December 2016
		US$million	*US$million*
Assets			
Non-current assets			
Property, plant and equipment	4	**669**	633
Deferred income tax asset		**80**	93
Other non-current assets		**3**	3
		752	729
Current assets			
Inventories	5	**48**	33
Trade and other receivables		**23**	38
Prepayments		**5**	6
Receivables from related parties	7	**285**	430
Loans receivable from related parties	7	**–**	72
Income tax receivable		**3**	4
Other taxes recoverable		**34**	34
Cash and cash equivalents	6	**49**	35
		447	652
Total assets		**1,199**	1,381
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	8	**–**	–
Additional paid-in capital		**388**	388
Reserve capital	8	**–**	–
Accumulated profits		**669**	501
Translation difference		**(563)**	(569)
		494	320
Non-controlling interests		**3**	3
		497	323
Non-current liabilities			
Long-term loans from related parties	7	**89**	29
Deferred income tax liabilities		**59**	58
Post-employment benefits liabilities		**17**	16
Site restoration provision		**8**	7
		173	110
Current liabilities			
Trade and other payables		**65**	55
Advances from customers		**8**	2
Short-term loans and current portion of long-term loans	9	**–**	405
Short-term loans and current portion of long-term loans from related parties	7	**127**	–
Payables to related parties	7	**287**	448
Income tax payable		**3**	2
Other taxes payable		**34**	33
Other provisions		**5**	3
		529	948
Total equity and liabilities		**1,199**	1,381

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

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Unaudited interim condensed consolidated statement of cash flows

Six-month period ended 30 June

	Notes	2017	2016
		US$million	*US$million*
Operating activities			
Profit for the period		**168**	49
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation, depletion and amortization		**26**	18
Deferred income tax expense	3	**15**	7
Impairment of assets	4	**(1)**	11
Foreign exchange gain		**(15)**	(57)
Interest income		**(1)**	–
Interest expense		**15**	19
Change in bad debt allowance		**8**	–
Changes in provisions and other long-term assets and liabilities		**1**	2
		216	49
Changes in working capital			
Inventories		**(15)**	(2)
Trade and other receivables		**7**	(7)
Prepayments		**1**	–
Receivables from / payables to related parties		**(25)**	(31)
Taxes receivable		**2**	1
Trade and other payables		**7**	9
Advances from customers		**6**	–
Taxes payable		**2**	2
Net cash flows from operating activities		**201**	21
Investing activities			
Purchases of property, plant and equipment		**(39)**	(15)
Proceeds from disposal of property plant and equipment		**3**	2
Loans issued to related parties	7	**(10)**	–
Repayment of loans issued to related parties	7	**87**	–
Other investing activities, net		**1**	2
Net cash flows from/(used in) investing activities		**42**	(11)
Financing activities			
Proceeds from loans from related parties	7	**335**	–
Repayment of loans from related parties, including interest	7	**(150)**	(20)
Repayment of loans, including interest		**(416)**	(15)
Net cash flows used in financing activities		**(231)**	(35)
Effect of foreign exchange rate changes on cash and cash equivalents		**2**	4
Net increase/(decrease) in cash and cash equivalents		**14**	(21)
Cash and cash equivalents at the beginning of the period		**35**	48
Cash and cash equivalents at the end of the period		**49**	27
Supplementary cash flow information			
Cash flows during the period			
Interest paid		**17**	17
Interest received		**1**	–
Income tax paid		**25**	4

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

PJSC Raspadskaya

Unaudited interim condensed consolidated statement of changes in equity

Six-month period ended 30 June 2017

	Attributable to equity holders of the parent							
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Translation difference**	**Parent share-holders' equity**	**Non-controlling interests**	**Total**
	US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
At 31 December 2015	–	388	–	316	(604)	100	2	102
Profit for the period	–	–	–	49	–	49	–	49
Other comprehensive income	–	–	–	–	18	18	1	19
Total comprehensive income	–	–	–	49	18	67	1	68
At 30 June 2016	–	388	–	365	(586)	167	3	170
At 31 December 2016	–	388	–	501	(569)	320	3	323
Profit for the period	**–**	**–**	**–**	**168**	**–**	**168**	**–**	**168**
Other comprehensive income	**–**	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Total comprehensive income	**–**	**–**	**–**	**168**	**6**	**174**	**–**	**174**
At 30 June 2017	**–**	**388**	**–**	**669**	**(563)**	**494**	**3**	**497**

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

1. Corporate information

The unaudited interim condensed consolidated financial statements of PJSC Raspadskaya (the "Company") for the six-month period ended 30 June 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 24 August 2017.

The Company's controlling shareholder is Evraz Group S.A. (Luxembourg), which owns approximately 81.95% of the Company's shares.

Lanebrook Limited (Cyprus) is the ultimate controlling party of the Group.

The Company and its subsidiaries (the "Group") derive 80% and 82% of their revenues from sales of coking coal in the six-month periods ended 30 June 2017 and 2016, respectively. Other revenue sources include sales of other goods, transport-handling and other services. The Company's shares are traded on the Russian stock exchange MOEX.

74% and 58% of the Group's revenue was generated in transactions with related parties in the six-month periods ended 30 June 2017 and 2016, respectively (Note 7).

2. Significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2017 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 2016.

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

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis.

The Group's activities continue to be affected by the uncertainty and instability of the current economic environment (Note 10). In response, the Group implemented a number of cost cutting initiatives and continues to reduce the level of debt.

Based on the currently available facts and circumstances the directors and management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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 2016, except for the adoption of new standards and interpretations and revision of the existing standards as at 1 January 2017.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

New/revised standards and interpretations adopted in 2017

- *Amendments to IAS 7 – Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

- *Amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments

3. Income tax

Major components of income tax

	Six-month periods ended 30 June	
	2017	**2016**
	US$million	*US$million*
Current income tax		
Current income tax charge	**(28)**	(7)
Adjustments in respect of income tax of prior years	**–**	1
Deferred income tax		
Relating to origination and reversal of temporary differences	**(15)**	(7)
	(43)	(13)

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$4 million as at 30 June 2017 and US$5 million as at 31 December 2016, respectively.

Movement in property, plant and equipment

	Mining assets	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
	US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
At 31 December 2016, cost, net of accumulated depreciation and depletion	429	54	92	12	1	45	633
Additions	**–**	**–**	**–**	**–**	**–**	**42**	**42**
Assets put into operation	**2**	**–**	**18**	**10**	**–**	**(30)**	**–**
Disposals	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Depreciation and depletion charge	**(8)**	**(1)**	**(13)**	**(4)**	**–**	**–**	**(26)**
Reversal of impairment	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Change in site restoration provision	**3**	**–**	**–**	**–**	**–**	**–**	**3**
Translation difference	**12**	**1**	**3**	**–**	**–**	**1**	**17**
At 30 June 2017, cost, net of accumulated depreciation and depletion	**439**	**54**	**99**	**18**	**1**	**58**	**669**

5. Inventories

	30 June 2017	31 December 2016
	US$million	*US$million*
Raw materials and spare parts	**14**	11
Work-in-progress	**32**	20
Finished goods	**2**	2
	48	33

6. Cash and cash equivalents

	30 June 2017	31 December 2016
	US$million	*US$million*
Russian rubles	**27**	6
US dollars	**22**	29
	49	35

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.

Transactions with related parties

	Sales to related parties		**Purchases from related parties**	
	Six-month periods ended 30 June		**Six-month periods ended 30 June**	
	2017	**2016**	**2017**	**2016**
	US$million	*US$million*	*US$million*	*US$million*
East Metals A.G.	**144**	58	**–**	–
Yuzhkuzbassugol	**70**	33	**24**	10
Evraz NTMK	**51**	15	**–**	–
Evraz ZSMK	**30**	1	**5**	1
Evraz DMZ	**21**	4	**–**	–
Evraz Yuzkoks	**6**	–	**–**	–
Southern Kuzbass	**1**	1	**–**	–
Mezhegeyugol	**1**	1	**–**	9
Metallenergofinance	**–**	–	**8**	5
Inprom	**–**	–	**2**	–
CHOP Interlock	**–**	–	**1**	1
OOO EvrazHolding	**–**	–	**1**	1
OUS	**–**	–	**1**	1
Other	**–**	–	**1**	1
	324	113	**43**	29

Amounts owed by/to related parties

	Amounts due from related parties		**Amounts due to related parties**	
	30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**
	US$million	*US$million*	*US$million*	*US$million*
Yuzhkuzbassugol	**137**	83	**267**	423
East Metals A.G.	**60**	57	**–**	–
Evraz ZSMK	**50**	150	**3**	2
Evraz NTMK	**32**	131	**–**	–
Evraz DMZ	**5**	6	**–**	–
Mezhegeyugol	**1**	2	**2**	9
UK Evraz Mezhdurechensk	**–**	1	**–**	–
Metallenergofinance	**–**	–	**2**	5
TC EvrazHolding	**–**	–	**8**	4
OOO EvrazHolding	**–**	–	**1**	1
Other	**–**	–	**4**	4
	285	430	**287**	448

7. Related party disclosures (continued)

Loans from related parties

Creditor	Curren-cy	Final maturity date	Interest rate	Opening balance as at 31 Dec 2016	Principal received	Interest accrued for the period	Repayment for the period	Translation difference	Closing balance as at 30 Jun 2017
				US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
Evraz KGOK	USD	02 July 2018	Libor + 4.1%	–	**100**	**1**	**(60)**	**–**	**41**
Evraz KGOK	USD	27 April 2017	5.30%	29	**–**	**1**	**(30)**	**–**	**–**
Evraz KGOK	USD	02 July 2018	5.90%	–	**69**	**1**	**(20)**	**–**	**50**
Evraz KGOK	USD	01 January 2018	Libor + 4.1%	–	**40**	**–**	**(40)**	**–**	**–**
Evraz ZSMK	RUB	30 April 2018	9.46%	–	**86**	**1**	**–**	**(1)**	**86**
Evraz ZSMK	RUB	28 April 2018	9.16%	–	**40**	**–**	**–**	**(1)**	**39**
				29	**335**	**4**	**(150)**	**(2)**	**216**

Loans issued to related parties

Borrower	Curren-cy	Final maturity date	Interest rate	Opening balance as at 31 Dec 2016	Principal issued	Interest accrued for the period	Repayment for the period	Translation differrnce	Closing balance as at 30 Jun 2017
				US$million	*US$million*	*US$million*	*US$million*	*US$million*	*US$million*
Evraz Group S.A.	RUB	28 April 2017	9.68%	72	**10**	**1**	**(87)**	**4**	**–**
				72	**10**	**1**	**(87)**	**4**	**–**

Compensation to key management personnel

Key management personnel totalled 10 people as at 30 June 2017 and 8 people as at 30 June 2016. 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	
	2017	**2016**
	US$million	*US$million*
Short-term benefits		
Salary and bonus	**1**	1
	1	1

8. Equity

Share capital

As at 30 June 2017 and 31 December 2016, 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.

8. Equity (continued)

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.

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.

	Six-month period ended 30 June	
	2017	**2016**
Profit for the period attributable to equity holders of the parent, *US$million*	**168**	49
Weighted average number of outstanding ordinary shares	**703,191,443**	703,191,443
Basic and diluted profit per share, *US dollars*	**0.24**	0.07

Dividends

On 18 May 2017 shareholders of the Company approved no final dividends for 2016.

9. Loans and borrowings

Loans and borrowings by source

	30 June 2017	**31 December 2016**
	US$million	*US$million*
7.75% notes due 2017	**–**	400
Interest payable	**–**	5
	–	405

On 27 April 2017 the Group repaid loan participation notes amounting to US$400,000,000 which were issued in April 2012 and beared an interest of 7.75% per annum payable semi-annually.

10. 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 Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Taxation

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle 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$7 million as at 30 June 2017.

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 2017 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 the Group expects to spend US$5 million in the years 2017-2022.

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.

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.

12. Subsequent events

On 1 August 2017 OAO MUK-96 was merged with ZAO Razrez Raspadskiy.

In August 2017 loan from EVRAZ KGOK in amount of US$ 50 million was fully repaid.