Raspadskaya announces IFRS results for H1 2020

Moscow, 21 August 2020 – PAO Raspadskaya (MOEX: RASP; “Raspadskaya” or “the Company”) today announces its results for H1 2020 in accordance with International Financial Reporting Standards.

Financial performance	**H1 2020**	**H2 2019**	**Change**	**Change, %**
	US$ million			
Revenue	333	569	(236)	(41)
Cost of sales	(219)	(256)	37	(14)
Gross profit	**114**	**313**	**(199)**	**(64)**
Gross profit margin	*34%*	*55%*		
Selling and distribution costs	(7)	(18)	11	(61)
General and administrative expenses	(14)	(18)	4	(22)
Social expenses	(1)	(1)	-	-
Gain on disposal of property, plant and equipment	1	-	1	n/a
Impairment of assets	-	(3)	3	(100)
Foreign exchange gain/(loss)	44	(14)	58	n/a
Other operating income	1	-	1	100
Other operating expenses	(7)	(5)	(2)	40
Operating profit	**131**	**254**	**(123)**	**(48)**
Interest income	5	13	(8)	(62)
Interest expense	(3)	(1)	(2)	n/a
Profit before income tax	**133**	**266**	**(133)**	(50)
Income tax expense	(29)	(55)	26	(47)
Profit for the period	**104**	**211**	(107)	(51)
Earnings per share, *cents*	**15.2**	**30.1**		
EBIT	**87**	**272**	**(185)**	(68)
EBITDA	**124**	**297**	**(173)**	(58)
EBITDA margin	*37.2%*	*52.2%*		
Capital expenditure (CAPEX)	**28**	**37**	(9)	(24)
	30/06/20	**31/12/19**		
Debt	**1**	**-**	1	n/a
Cash and cash equivalents	**629**	**571**	**58**	10

HIGHLIGHTS

- In H1 2020, revenues totalled US$333 million, down 41% year-on-year
- EBITDA fell to US$124 million, compared with US$297 million in H1 2019
- The EBITDA margin declined to 37.2%, compared with 52.2% in H1 2019
- Net operating cash flow amounted to US$118 million, compared with US$269 million in H1 2019
- During the reporting period, the Company reported a net profit of US$104 million, compared with US$211 million in H1 2019. Earnings per share declined two times, from 30 cents to 15 cents.
- The production volume of ordinary coal of all grades amounted to 5.1 million tonnes in H1 2020,

compared with 7.1 million tonnes in H1 2019

- In H1 2020, the cash cost per tonne of coal concentrate fell by 13% year-on-year to US$27 per tonne.
- During the reporting period, CAPEX amounted to US$28 million, compared with US$37 million in H1 2019
- As of 30 June 2020, the Company had cash and cash equivalents of US$629 million, including total debt of US$1 million
- At the end of June 2020 there was a significant decrease in demand due to the COVID-19 pandemic, while coal prices reached historic lows (the FOB Australia semi-soft coking coal spot quotation reached US$60 per tonne, which corresponds to approximately US$16 per tonne on FCA Mezhdurechensk basis). There is still a high level of uncertainty about prices and demand for coal products due to the expected second wave of COVID-19 outbreak during the fall 2020.
- To maintain the production level after 2025 the Company plans to start implementation of investment projects aimed at preparation of the Raspadskiy-IV license area at the Raspadskaya mine and the Vostochny wing license area at the Raspadskaya-Koksovaya mine, which will require an increase in investments during 2021 - 2023.
- Despite the above mentioned limitations, the Board of Directors on 20 August 2020 decided to recommend a dividend payment in the amount of 2.7 rubles. per share for H1 2020 which corresponds to approximately a 30% increase in dividend yield compared with H1 2019

Commenting on the results, Andrey Davydov, General Director of Raspadskaya, said:

“During the first half of 2020, the COVID-19 pandemic caused a significant reduction in demand for metallurgical coal from large steelmaking plants due to restrictive measures implemented by governments around the world, which led to a impact on prices. This situation required serious efforts by the Company to restructure and reduce costs. Production at Razrez Raspadsky open-pit was temporarily halted and the volume of production work was optimised at other enterprises.

As a result of measures taken to ensure worker safety, COVID-19 did not touch a large part of the Company’s business. The management analysed various scenarios, including stress-testing, in order to identify to the potential impact of the COVID-19 pandemic crisis on financial results and liquidity. The analysis showed that amid all plausible scenarios, the Group has sufficient resources to continue as a going concern.

At its meeting on 20 August 2020, the Board of Directors discussed the Company’s performance in the first half of 2020 and the distribution of profit. In its discussion of the amount of dividends to be paid for the first half of 2020, the Board of Directors reviewed the following significant factors and trends in the global economy and coal industry:

- Deterioration of the Group's financial results amid reduced global demand for coal and subsequent decline in market prices and sales volumes;
- Unfavourable outlook for coal prices;
- High sectoral and production risks;
- The planned amount of investments for 2021 - 2023;
- Risks associated with the COVID-19 pandemic;
- Limited access to capital markets for coal companies as ESG matters continues to grow in importance on the global agenda.

Based on these global factors and trends, the Board of Directors resolved that the Company must maintain sufficient financial reserves in the form of cash balances.

Based on the principles of dividend payments approved in March 2019, the Board of Directors has recommended to the Extraordinary Meeting of Shareholders dividends for the first half of 2020 in the amount of RUB2.7 per share or a total amount of around RUB1.8 billion (around US$25.2 million).”

Management discussion and analysis of financial standing and operational results for H1 2020

This discussion and analysis should be read in conjunction with the interim, condensed and consolidated financial statements of Raspadskaya for H1 2020, prepared in accordance with IAS 34 Interim Financial Reporting

This discussion and analysis contain forward-looking statements that involve risks and uncertainties. The actual results may differ essentially from those discussed in the forward-looking statements due to several factors.

Raspadskaya is a group of integrated companies that specialises in the production and sale of coking coal and has leading positions in the Russian coal market. The Group is located in the town of Mezhdurechensk, in the Kemerovo region of Russia, and includes: the Raspadskaya, MUK-96 (merged with Razrez Raspadsky since 1 August 2017) and Raspadskaya-Koksovaya underground mines; the Razrez Raspadsky and Raspadskaya-Koksovaya open-pit operations; a coal preparation plant; several coal production and transportation infrastructure enterprises; and RUK, a trading and management company.

Contents

Mineral reserves and resources

Raspadskaya has reserves of 1.4 billion tonnes of high-quality semi-hard coking coal of the Zh and GZh grades, as well as hard coking coal of the K, KO and OS grades. At current rates of production, the Company's reserves and resources will allow it to extract coking coal for more than 90 years.

In 2017, the Company had its reserves audited in accordance with the JORC Code. The audit was conducted as of 1 July 2017 by IMC Montan.

The table below details Raspadskaya's JORC-equivalent reserves of coking coal as at 31 December 2019.

Mine	**Proved and probable** *mln t*
Raspadskaya	912
Raspadskaya-Koksovaya (includes Raspadskaya-Koksovaya open-pit operations)	225
MUK-96	113
Razrez Raspadsky	101
Total	**1,351**

Semi-hard coking coal includes coal of the GZh (gas fat) grades under the Russian classification. Semi-soft coking coal includes the GZhO (gas fat semi-lean) grade under the Russian classification. Hard coking coal includes coal of the K (coking), KO (coking semi-lean) and OS (semi-lean coking) grades, which are scarce in Russia and the most valuable coal grades for coking. The Raspadskaya-Koksovaya mine extracts only hard coking coal, while the other mines extract semi-hard coal and semi-soft coal.

In H1 2020, the Company extracted 5.1 million tonnes of coking coal.

Key factors and risks affecting Raspadskaya's business activities

Global economic factors, industry conditions and cost effectiveness

Raspadskaya's operations, which have a high level of fixed costs, depend considerably on the global macroeconomic environment and economic conditions that significantly affect product prices and volumes.

The Company has an investment policy, which aims to reduce and manage the cost base with the objective of increasing cost efficiency, and cost-reduction programmes designed to enhance the competitiveness of its assets.

Health, safety and environmental (HSE) issues

As part of its focus on risk management, the Company has adopted and is implementing a range of initiatives to reduce the number of injuries and risks of potential accidents.

Raspadskaya implemented several additional measures to ensure worker safety in response to the spread of the COVID-19 pandemic, including widescale testing, requirements to wear masks, the disinfection of outer clothing upon entering the workplace and other steps.

To improve air and gas monitoring, analogue methane sensors at working faces are being replaced with digital sensors that can transmit methane concentration data in real time from portable gas analysers worn by mining personnel to multifunctional safety systems. A degasification programme is being actively implemented and the drilling of degasification wells is being carried out, including the use of advanced directional drilling. As part of the ventilation programme, equipment was introduced for drilling a well from the surface with a diameter of 2,400 millimetres.

The uninterrupted, on-line monitoring of the atmosphere of an area with active longwalls (risk zones) was implemented as part of the programme for preventing the spontaneous combustion of coal. Each longwall on a rockbed subject to spontaneous combustion is maintained under the protection of nitrogen stations: nitrogen gas is introduced into the space with active longwalls from the surface through the wells to reduce the oxygen content.

Modern tunnelling machines are being introduced that are equipped with a hydraulic, mechanised covering to protect personnel from falling pieces of rock or coal. The tunnelling machines are equipped with video-monitoring systems and the recordings are regularly analysed for compliance with technological standards of work. In addition, protective systems are being installed to ensure the automatic cutting of power to a tunnelling machine that is getting dangerously close to personnel.

The conditions and technology governing the supply of cargo deliveries to mine facilities are being improved. The secure cargo doors of ventilation hatches are equipped with an automatic remote opening system. Express transfers are being introduced with a remote-controlled monorail, with standard-sized delivery containers capable of being towed by tunnelling machines.

The Safe Movement of Personnel at Mining Facilities programme continues to be implemented: at the primary mining sites, safe gangways, crossing bridges, landing and exit platforms and ventilation hatches are being installed. Systematic monitoring and analysis of the systems is being carried out to prevent personnel from entering the area of conveyer belts, and in those areas where the system is frequently alerted, video monitoring systems are being installed.

Injury data are being analysed to develop and implement programmes to train personnel and foster a safe working culture. For example, the 5 Golden Safety Rules communications programme for electrical fitters, miners, dump-truck drivers and washing plant workers is focusing employees' attention on five essential rules defining their profession, adherence to which greatly reduces the risk of injury or death. In addition, focus group are regularly held to talk about safety with workers facing substantial levels of risk in carrying out mining work. At these sessions, specially trained administrative personnel get first-hand information about problems and risks in the production process. Information and suggestions obtained in this way are used in the day-to-day management of the production process, put on problem-solving boards and used to plan and implement safety programmes.

In addition, training sessions using the risk map are held regularly for workers in the riskiest professions, such as electrical fitters, who carry out training at specialised facilities and undergo assessment for their risk appetite.

Raspadskaya continues to implement environmental programmes, as part of which it is building and modernising treatment facilities to improve the quality of mine wastewater, as well as a land re-cultivation initiative.

Potential government action

Raspadskaya operates in Russia, and there is a risk that the Russian government or government agencies could adopt new laws and regulations that could affect Raspadskaya's operations. New laws, regulations or other requirements could negatively impact the Company's activities, limit its ability to obtain financing in international markets, sell its products or purchase equipment.

Raspadskaya may also be adversely affected by select foreign government sanctions against Russian businesses, reducing its ability to conduct business with potential or existing counterparties.

Although these risks are beyond the Company's control, Raspadskaya and its management are members of various national industry bodies and, as a result, contribute to decision making when appropriate. Compliance with regulatory requirements is continuously monitored, regulatory changes are tracked, and appropriate control procedures are implemented as necessary.

Financial risks

Raspadskaya faces various financial risks, including liquidity, credit access, foreign-exchange and tax compliance risks. It may be impacted by the introduction of limitations on repatriation of foreign-currency proceeds from exports, as well as additional regulations or limitations on cross-border capital flows.

In addition, the risk of inflation could impact operating costs and free cash flow. This risk is managed by programmes to optimise net working capital, CAPEX and costs.

The Company's performance could also be impacted by limited access to refinancing.

Business disruption

Prolonged outages or production delays could have a material adverse effect on Raspadskaya's operating performance, financial standing and business prospects. In addition, long-term business disruption may result in a loss of clients and competitive advantages, as well as damage to the Company's reputation.

To mitigate such risks, Raspadskaya has established measures and procedures to ensure continuous operations that are subject to regular review. Temporary stoppages of coal production are primarily due to maintaining the safety of production. Measures to mitigate these risks include methane monitoring and degassing systems, timely maintenance of mining equipment, employee safety training and development of a geodynamic monitoring system. Detailed analysis of the causes of work disruption is performed to develop and implement preventative action, which is also designed to avoid similar violations in the future. Records of minor disruptions are regularly reviewed to identify any more significant underlying issues.

Information security, efficiency and IT system availability

Failure to actively use IT capabilities to improve business process efficiency can lead to a loss of competitive advantage and profit.

Risks related to IT systems and information security can also potentially affect production activities.

The Company's IT strategy seeks to use digital transformation to reduce the risks of inefficient use of IT capabilities. To reduce information security risks, they regularly undergo an external assessment, as a result of which response measures are developed, and their implementation is monitored. The most critical IT systems are regularly tested.

The management is continuously developing and implementing additional measures aimed at minimising IT risks.

Effectiveness of investment projects

Raspadskaya's development plans rely heavily on investment projects and depend on the availability and cost of capital to finance them, as well as on effective implementation. Economic and regulatory conditions could also lead to the revision, delay or cancellation of planned capital expenditures, which could impact the Company's development.

The effectiveness of new developments can be influenced by such variables as unexpectedly low coal quality, as well as technical and technological factors that hinder transport, which can drive costs higher and, consequently, impact the effectiveness of investment projects.

To mitigate such risks, all proposed investment projects are evaluated in terms of the economics of their implementation. For each project, risks are identified and preventive measures are developed. Each project is carefully monitored at every stage of its implementation. Key assumptions for major investment projects are regularly reviewed.

Other risks

The Company continues to monitor and evaluate risks and factors that are not critical in terms of potential business impact. Among others, these include potential logistical bottlenecks, which could influence access to export markets, availability of personnel with the required qualifications, and the Company's ability to comply with legal requirements.

Exchange rates

When reviewing this discussion and analysis, it is important to consider fluctuations in the US dollar/Russian ruble exchange rate. The Company's performance may be significantly affected by these changes. Its functional currency is the Russian ruble, and its assets, liabilities, revenues and expenses are denominated mostly in rubles, while the presentational currency in the financial statements is the US dollar.

The table below gives some exchange rates used to prepare Raspadskaya's consolidated financial information.

	H1 2020	**H1 2019**	**Change, %**
Average exchange rate, RUB/US$	69.3714	65.3384	6
	30.06.20	**31.12.19**	**Change, %**
Exchange rate, RUB/US$	69.9513	61.9057	13

Production capacity

The production capacity of Raspadskaya's mines is a factor that sets an upper limit to production and, consequently, sales volumes. Many factors influence Raspadskaya's production capacity, including equipment productivity and mining conditions.

The Company's business activity depends on its ability to maintain a stable level of production. As such, the availability and development of mineral reserves, the level of maintenance of mining equipment and overall facilities, and the provision of safe working conditions significantly affect the results of the Company's activities.

Coking coal supply and demand

The Company's operating and financial results are highly dependent on the balance of coking coal supply and demand on domestic and international markets. This balance determines the prices of coking coal, affects sales volumes, and is primarily driven by fluctuations in steel and coke production volumes, changes in coal production capacities and other related factors, which are in turn dependent on Russian and global macroeconomic conditions.

The Company's end consumers are large domestic and foreign steel and coke producers. As such, the Company's sales are influenced by Russian and international steel markets. Sales on the Russian market remain the priority.

An important factor influencing the supply-demand balance during H1 2020 was the global reduction in business activity against the background of the COVID-19 pandemic. The majority of companies worldwide were forced to reduce capacity and cut production of steel and demand for coal. The unbalance on the market led to a fall in coal prices.

The activities of competitors were a factor on the supply side.

The Company plans to preserve and foster its competitiveness primarily through cost reduction programmes, the optimal combination of price/quality, the presence of long-term contracts and the development of relationships with current and potential clients.

Coking coal sale prices

Both domestic and export prices for coking coal have a material impact on revenues and therefore the Company's financial results.

Coking coal is sold either under long-term contracts or on spot markets. The price for coal is set according to its coking characteristics because coking coal is a product that varies in quality. The Company's export selling prices are within regional market trends.

Raspadskaya's contract prices are set in Russian rubles for domestic sales and US dollars for export sales.

In H1 2020, the Company supplied coal products to all of its main Russian clients under long-term contracts. Internal prices are primarily set quarterly based on global trends.

In H1 2020, the prices of the Company's export sales depended on international quarterly and spot benchmarks for hard and semi-soft coking coal using appropriate premiums or discounts.

The bulk of domestic sales and exports to Southeast Asia and Europe were made under FCA Mezhdurechensk delivery terms. Other terms used were CPT and DAP. Except for FCA, transportation and other related costs are included in the contract price.

The table below gives the weighted average prices of the Company's coal concentrate rebased to common delivery terms (FCA Mezhdurechensk).

	H1 2020	H1 2019	Change, %
	US$/t		
Weighted average selling price	56.7	100.8	(44)

The selling price for coal concentrate on the markets where the Company operates, including the domestic market, as well as Europe and Asia-Pacific countries, may differ depending on specific civil obligations with counterparties in accordance with applicable sales and distribution policy.

In H1 2020, all of the Company's selling prices continued to follow global benchmarks and indices.

Sales through East Metals AG

To expand the client base and promote products on export markets, the Company makes most of its export sales of concentrate (with the exception of Ukraine) through the East Metals AG (EMAG) trading company, in Switzerland, which is part of the EVRAZ group. All sales contracts with EMAG are on arms-length, market terms.

Sales through EMAG enable the Company to reduce inventories and the need for working capital due to the reduction of railway costs and freight-forwarding support (freight). Raspadskaya's Audit Committee is tasked with oversight and confirmation of the arms-length market terms of these related-party contracts.

Sales of Yuzhkuzbassugol and Mezhegeyugol coal products

In H1 2020, as part of its authority as a trading agent, RUK re-sold coal products from Yuzhkuzbassugol/Mezhegeyugol for a total of US$298 million (4.9 million tonnes), with a cost of sales of US$292 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US$6 million, as included in "Rendering of services" in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US$7 million in Trade and other receivables, US$95 million in Receivables from related parties and US$280 million in Payables to related parties.

The tables below detail the effect of these agent sales on the Statement of Financial Position and the Statement of Comprehensive Income.

Statement of Comprehensive Income

(US$ million)	**H1 2020**	**H1 2019**
Revenues		
Rendering of services	6	8

Statement of Financial Position

(US$ million)	**30.06.2020**	**31.12.2019**
Current assets		
Advances paid	-	1
Trade and other receivables	7	14
Receivables from related parties	95	23
Short-term liabilities		
Payables to related parties	280	137
Net payables to Yuzhkuzbassugol / Mezhegeyugol from agent sales	**(178)**	**(99)**

Sales volumes

The table below details the Company's sales volumes of coal concentrate and raw coal by market:

	H1 2020		H1 2019			
	Vol	**Share**	**Vol**	**Share**	**Change**	**Change, %**
	kt		*kt*		*kt*	
Coal concentrate – Russia	**1,264**	***31%***	***1,036***	***26%***	**228**	**22**
Incl. EVRAZ	811	*20%*	700	*17%*	111	16
Coal concentrate - Export	**2,880**	***69%***	**3,010**	***74%***	**(130)**	**(4)**
Europe	211	*5%*	703	*17%*	(492)	(70)
Asia-Pacific Region	2,669	*64%*	2,307	*57%*	362	16
Coal concentrate – total	**4,144**	***100%***	**4,046**	***100%***	**98**	**2**
Raw coal – Russia	544		1,168		(624)	(53)
Incl. EVRAZ	542	*100%*	1,154	*93%*	(612)	(53)
Raw coal – Europe	-		72		(72)	(100)
Concentrate and raw coal	**4,688**		**5,286**		**(598)**	**(11)**

Total sales of coal products fell 11% year-on-year to 4.7 million tonnes.

The share of total coal production supplied to EVRAZ steel mills stood at 29%.

Raspadskaya conducts coal sales to EVRAZ plants on market terms based on normal pricing mechanisms, including discounts or surcharges for coal grade.

The share of exports in the total volume of sales fell to 69% or 2.9 million tonnes (-0.13 million tonnes year-on-year), 93% of which was accounted for by deliveries to Southeast Asia and 7% to Europe. Deliveries to Europe amounted to 5% of total concentrate sales in H1 2020 (-12 percentage points year-on-year). The main reason for the reduction in sales to Europe was lower demand for coal due to the COVID-19 pandemic. The Company continues to develop its client base and foster relationships with existing clients.

Domestic concentrate sales increased by 22% year-on-year to 1.3 million tonnes due to the expansion of the product portfolio and growth in supplies to EVRAZ steel mills. Sales of raw coal amounted to 0.5 million tonnes.

During H1 2020, the Company continued the geographic diversification of its sales while maintaining the balance between long-term contracts and supplies to the spot markets.

Revenues

The table below gives a breakdown of the Company's revenues:

	H1 2020		H2 2019			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Coal concentrate – Russia	106	*40%*	135	*28%*	29	(21)
Coal concentrate – export	129	*49%*	274	*57%*	(145)	(53)
	235	***89%***	**409**	***85%***	**(174)**	**(43)**
Raw coal – Russia(1)	30	*11%*	74	*15%*	(44)	(59)
Raw coal – Europe(1)	-	*0%*	-	*0%*	-	-
	265	***100%***	**483**	***100%***	**(218)**	**(45)**
Transport costs in sales price(2)	5		15		(10)	(67)
Sales of other goods	43		48		(5)	(10)
Rendering of services	20		23		(3)	(13)
Revenues	**333**		**569**		**(236)**	**(41)**

(1) Excluding sales of coal in the amount of 81.1 thousand tonnes in H1 2020 and 60.2 thousand tonnes in H1 2019.
(2) Consists of railway costs, handling and other services in ports that are included in the sales price of the Company's coal concentrate under delivery terms other than FCA Mezhdurechensk.

Revenues from the sale of coal products, rebased to common delivery terms (FCA Mezhdurechensk) in H1 2020 dropped by US$218 million, or by 45% year-on-year, due to a 44% average reduction in prices (FCA), as well as to the total fall in sales volumes of 11% year-on-year.

The transport component in the sales price fell by 67% year-on-year. Excluding exchange rate factors, the reduction stood at 62% due to the decrease in sales volumes to Ukraine (delivered on DAP terms) and to one of the Russian client (delivered on CPT terms).

The sales of other goods in H1 2020 were lower than in H1 2019 due to a reduction in revenues from the resale of coal purchased from third-parties (volume and price factor).

Services provided consists largely of services for Yuzhkuzbassugol, which is part of the EVRAZ group, coal product transport services for other coal enterprises in the region, as well as the commission for RUK from the resale of coal from Yuzhkuzbassugol, the decrease in which was driven by the decline in coal product prices.

Given the decrease in revenues from coal products (FCA), as well as the reduction in revenues from the sale of other goods and services, total revenues fell by 41% year-on-year in H1 2020.

Production volumes

The Company's production volumes depend on capacity and demand.

The table below gives the Company's production volumes for its coal products:

	H1 2020	H1 2019	Change	Change, %
		Kt		
Raw coal extraction	5,065	7,146	(2,081)	(29)
Raw coal preparation	5,244	5,524	(280)	(5)
Coal concentrate production	3,676	3,924	(248)	(6)
Concentrate yield	70.1%	71.0%		

	H1 2020	H1 2019	Change	Change, %
		Kt		
Raspadskaya (GZh)	3,222	3,883	(661)	(17)
Razrez Raspadsky (GZh, GZhO)	608	2,181	(1,573)	(72)
Raspadskaya-Koksovaya (K, KO)	436	325	111	34
Raspadskaya-Koksovaya, open-pit (OS, KS)	799	758	41	5
Total	**5,065**	**7,146**	**(2,081)**	**(29)**

In H1 2020, the total amount of extraction at all of the Company's facilities was 5.1 million tonnes of raw coal (down 29% year-on-year). The fall in output was caused mainly by a reduction in mining with a subsequent temporary halt in operations (in May 2020) at Razrez Raspadsky. A portion of the freed equipment was redeployed to the open-pit mine at Raspadskaya-Koksovaya to increase production of the premium OS grade (hard coking coal), which experienced high demand on the domestic market.

Concentrate yield fell slightly year-on-year due to the increased ash content of processed coal and amounted to 70.1%.

Cost of production and sales

The level of production is an important factor in determining the Company's competitiveness in terms of cost of sales, as a substantial part of its costs are fixed, as is typical in the mining industry.

The table below gives Raspadskaya's cash costs for coal concentrate.

	H1 2020	H1 2019	Change	Change, %
		US$		
Cash cost per tonne of concentrate(1)	27	31	(4)	(13)

(1) From the management accounts

In H1 2020, the cash cost per tonne of concentrate fell by 13% (down US$4) year-on-year. The implementation of the cost reduction programme and the devaluation of the ruble during the reporting period were the main reasons for the lower cost of sales. These positive effects on the cost of sales per tonne of concentrate were partially offset by a fall in production at Raspadskaya mine.

The table below gives a breakdown of the Company's cash cost of production and sales:

	H1 2020		H1 2019			
	Amount	Share	Amount	Share	Change	Change, %
			US$ million			
Payroll and payroll taxes	43	*30%*	49	*26%*	(6)	(12)
Taxes	4	*3%*	10	*5%*	(6)	(60)
Materials	32	*23%*	60	*32%*	(28)	(47)
Electricity	9	*6%*	9	*5%*	-	-
Other costs	24	*18%*	34	*18%*	(10)	(29)
Cash cost of production	**112**	***79%***	**162**	***86%***	**(50)**	**(31)**
Depreciation	25	*18%*	19	*10%*	6	32
Depletion of mining assets	5	*4%*	7	*4%*	(2)	(29)
Cost of production	**142**	***100%***	**188**	***100%***	**(46)**	**(24)**
Transport expenses	17		33		(16)	(48)
Cost of goods resold	40		46		(6)	(13)
Changes in work in progress and finished goods	20		(11)		31	n/a
Cost of sales	**219**		**256**		**(37)**	**(14)**

Payroll and payroll taxes

Payroll and payroll taxes are one of the largest items in the Company's cost of production: 32% in H1 2020 and 26% in H1 2019.

The table below details the Company's overall staff costs and headcount**:**

	H1 2020	**H1 2019**	**Change**	**Change, %**
	US$ million			
Payroll in the cost of production	43	49	(6)	(12)
Payroll in general and administrative costs	9	9	-	-
Payroll in other operating expenses	1	-	1	100
Total payroll	**53**	**58**	**(5)**	**(9)**
Average headcount	**6,063**	**6,032**	**31**	**1**

The average headcount grew (+1% year-on-year) in H1 2020. Payroll for production personnel fell by 12%. Excluding exchange-rate factors, payroll for production personnel fell by 6% due to the reduction in mining. Payroll for administrative personnel remained unchanged in dollar terms year-on-year in H1 2020. Excluding exchange-rate factors, this increased by 3%, caused by the indexation of wages, the hiring of additional people under a quota for people with disabilities and the strengthening of the production and technical services teams.

Taxes

In H1 2020, taxes fell by US$6 million or 60% year-on-year. Excluding exchange-rate factors, taxes fell by 52%, primarily due to a reduction in the mineral extraction tax (reduction in extraction volumes and lower coal prices).

Materials and electricity

In H1 2020, materials costs fell 47% year-on-year. Excluding exchange-rate factors, material costs fell by 42%, due to a reduction in the consumption of fuels and lubricants at Razrez Raspadsky following suspension of production as well as due to lower utilisation of third-party raw coal to produce blended concentrate.

Excluding exchange-rate factors, spending on electricity increased by 6% year-on-year. This was primarily due to an average tariff hike of 8% year-on-year.

Depreciation and depletion of mining assets

Depreciation and depletion of assets in H1 2020, excluding exchange-rate factors, increased by 23% year-on-year. The increase was due to the installation of new equipment for the amount of US$32 million in H2 2019 and H1 2020 with an average useful life (5 years) that is lower than the average useful life of equipment used at the Raspadskaya and Raspadskaya-Koksovaya mines (an effect of US$3 million), as well as a US$14 million increase in capital repairs during H2 2019 and H1 2020 with an average useful life (2 years) less than the average useful life (7 years) in this group at Raspadskaya and Raspadskaya-Koksovaya mines and Razrez Raspadsky (effect of US$3 million).

Transport expenses

Transport expenses consist of domestic road freightage, as well as coal shipments to the Raspadskaya washing plant by both rail and road.

In H1 2020, transport expenses fell by 48% year-on-year due to the reduction in the use of third-party contractors as a result of lower coal production.

Cost of goods resold

In H1 2020, the cost of goods resold fell year-on-year due to a reduction in the volume of purchases of coal from third parties for resale.

Changes in work in progress and finished goods

The change in work in progress and finished goods in H1 2020 was due to a reduction in residual raw GZh coal at Razrez Raspadsky, as well as a reduction of GZh concentrate at the Raspadskaya washing plant stockpiles.

Other expenses

Other expenses consist mainly of spending on industrial services. Excluding exchange-rate factors, spending on industrial services fell by 26% year-on-year in H1 2020 due to the reduction in the use of third-party contractors as a result of lower coal production

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist mainly of railways costs that the Company incurs under CPT and DAP terms. These expenses are included in revenues from the sale of coal products and amounted to US$5 million in H1 2020 and US$15 million in H1 2019. Excluding exchange-rate factors, selling and distribution costs fell by 58% year-on-year in H1 2020, due mainly to a significant reduction in CPT sales to Russia and DAP sales to Ukraine.

General and administrative expenses

The table below gives a breakdown of the Company's general and administrative expenses:

	H1 2020		**H1 2019**			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Payroll and payroll taxes	9	*64%*	9	*50%*	-	-
Taxes	-	*0%*	1	*6%*	(1)	(100)
Materials	1	*7%*	1	*6%*	-	-
Depreciation and depletion	-	*0%*	-	*0%*	-	-
Other expenses	4	29%	7	39%	(3)	(43)
	14	**100%**	**18**	**100%**	**(4)**	**(22)**

In H1 2020, the Company's general and administrative expenses fell by 22% year-on-year. Excluding exchange-rate factors, in H1 2020, general and administrative costs fell by 17% year-on-year. The reduction in costs was due mainly to a decrease in other expenses, including from the implementation of operating efficiency projects in H1 2019.

Impairment

In H1 2020, there were no indications of impairment at cash-generating units, according to the Group's evaluation.

Foreign-exchange gain/(loss)

Foreign-exchange differences, whether positive or negative, arise from the revaluation of assets and liabilities in foreign currencies (primarily US dollars), as well as the purchase and sale of foreign currencies.

An foreign-exchange gain of US$44 million was recorded in H1 2020, due to the revaluation of funds in cash accounts and accounts receivable due to a growth in the US dollar exchange rate in the reporting period.

Other operating income and expenses

Other operating income and expenses consist of atypical, non-recurring income and expenses.

Interest expense

Interest expense during H1 2020 totalled US$3 million, including the increase attributable to the passage of time on the land reclamation reserve, as well as interest expenses on pension obligations.

Income tax

In H1 2020, income tax amounted to US$29 million and consisted of US$26 million in accrued tax, changes in deferred taxed assets and liabilities in the amount of US$2 million and US$1 million related to sums for which tax was charged in past periods (reflected as a correction in the amount of profit tax in previous years).

EBITDA

The table below gives the Company's EBITDA:

	H1 2020	H1 2019	Change	Change, %
	US$ million			
Profit for the period	**104**	**211**	**(107)**	**(51)**
Adjusted for:				
Social expenses	1	1	-	-
Foreign exchange gain/(loss)	(44)	14	(58)	n/a
Interest income	(5)	(13)	8	(62)
Interest expense	3	1	2	n/a
Gain on disposal of property, plant and equipment	(1)	-	(1)	(100)
Impairment of assets	-	3	(3)	(100)
Income tax expense	29	55	(26)	(47)
EBIT	**87**	**272**	**(185)**	**(68)**
Adjusted for:				
Amortisation and depletion of mining assets	37	25	12	48
EBITDA	**124**	**297**	**(173)**	**(58)**
EBITDA margin	37.2%	52.2%		

Liquidity

The Company's primary source of liquidity is cash generated from operating activities. The table below gives the Company's cash flow statement.

	H1 2020	H1 2019	Change	Change, %
	US$ million			
Cash and cash equivalents at the beginning of period	**571**	**67**	**504**	**n/a**
Net cash flows from operating activities	118	269	(151)	(56)
Purchases of property, plant and equipment	(28)	(37)	9	(24)
Proceeds from disposal of property plant and equipment	1	2	(1)	(50)
Loans issued to related parties	(312)	(97)	(215)	n/a
Repayment of loans issued to related parties	290	33	257	n/a
Proceeds from loans issued by related parties	1	-	1	100
Share buyback	-	(46)	46	(100)
Dividends paid	(3)	-	(3)	100
Effect of foreign exchange rate changes on cash and cash equivalents	(9)	8	(17)	n/a
Cash and cash equivalents at the end of period	**629**	**199**	**430**	**n/a**

The Company intends to maintain sufficient liquidity to continue its activities in the changing economic environment.

Working capital

The table below details the Company's working capital:

	30.06.20	31.12.19	Change	Change, %
	US$ million			
Inventories	55	86	(31)	(36)
Accounts receivable (including Receivables from related parties)	512	354	158	45
Prepayments	22	24	(2)	(8)
Taxes recoverable	52	58	(6)	(10)
Less:				
Payables receivable (including Payables to related parties)	(490)	(300)	(190)	63
Taxes payable	(34)	(22)	(12)	55
Contract liabilities	-	(1)	1	100
Working capital	**117**	**199**	**(82)**	**(41)**

Capital expenditure

The table below summarises the Company's capital expenditure:

	H1 2020	H1 2019		
	Total	Total	Change	Change, %
Financing of investments, US$ million	28	37	(9)	(24)
Financing of investments per tonne of raw coal mined, US$	5.5	5.2	0.3	6

In H1 2020, financing of capital investments fell by 24% year-on-year. This reduction was due to the implementation in H1 2019 of a programme to replace equipment at Razrez Raspadsky and the acquisition of mining equipment for Raspadskaya mine to replace worn-out equipment.

Off-balance-sheet arrangements

Raspadskaya does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial standing or the results of its business activity.

Glossary

CPT (carriage paid to): The seller pays for the carriage of the goods to the named place of destination. The buyer pays for insurance, import duties and delivery from the place of destination.

DAP (delivered at place): The seller pays for delivery to the named destination.

FCA (free carrier): The seller pays for export duties at the named place of departure.