Raspadskaya Announces IFRS Results for 2019

Moscow, 20 March 2020 – PAO Raspadskaya (MOEX: RASP) (further "Raspadskaya" or "the Company") today announces its consolidated results for 2019 in accordance with International Financial Reporting Standards (IFRS).

Financial performance	2019	2018	Change	Change, %
	US$ million			
Revenue	996	1,085	(89)	(8)
Cost of sales	(502)	(478)	(24)	5
Gross profit	**494**	**607**	**(113)**	**(19)**
Gross profit margin	*50%*	*56%*		
Selling and distribution costs	(30)	(34)	4	(12)
General and administrative expenses	(33)	(27)	(6)	22
Social expenses	(2)	(1)	(1)	100
Loss on disposal of property, plant and equipment	-	(2)	2	(100)
Impairment of assets	(155)	(1)	(154)	n/a
Foreign exchange gain/(loss)	(24)	23	(47)	n/a
Other operating income	1	2	(1)	(50)
Other operating expenses	(8)	(8)	-	-
Operating profit	**243**	**559**	**(316)**	**(57)**
Interest income	25	10	15	n/a
Interest expense	(2)	(3)	1	(33)
Other non-operating loss	(1)	-	(1)	100
Profit before income tax	**265**	**566**	**(301)**	(53)
Income tax	(57)	(118)	61	(52)
Profit for the period	**208**	**448**	(240)	(54)
Earnings per share, *cents*	**30.0**	**64.0**		
EBIT	**424**	**540**	**(116)**	(21)
EBITDA	**478**	**589**	**(111)**	(19)
EBITDA margin	*48.0%*	*54.3%*		
Capital expenditures (CAPEX)	**76**	**53**	23	43
	31/12/19	**31/12/18**		
Debt	-	-	-	n/a
Cash and cash equivalents	**571**	**67**	**504**	**n/a**

HIGHLIGHTS

- In 2019, revenue totalled US$996 million, down 8% year-on-year
- EBITDA fell to US$478 million, compared with US$589 million in 2018
- EBITDA margin declined to 48.0%, compared with 54.3% in 2018
- Net operating cash flow amounted to US$362 million, compared with US$358 million in 2018
- Net profit was US$208 million, compared with US$448 million in 2018

- MUK-96 was impaired based on decision to postpone the launch of mining till 2027. An impairment loss related to MUK-96 amounted to US$147 million
- On 19 March 2020, the Board of Directors decided to recommend a dividend for 2019 of RUB2.83 per share
- Overall coal production (all grades) totalled 12.8 million tonnes, compared with 12.7 million tonnes in 2018
- The cash cost of coal concentrate stood at US$31 per tonne, down 18% year-on-year
- The actual average selling price of coal concentrate, rebased to common delivery terms (FCA Mezhdurechensk), amounted to US$89.9 across all regional markets. The selling price of coal concentrate may differ depending on specific civil obligations with counterparties in accordance with the applicable trade and marketing policy according to the markets of presence: the domestic market, the European market, the market of Asia-Pacific countries.
- CAPEX was US$76 million, compared with US$53 million in 2018
- As of 31 December 2019, the Company had cash and cash equivalents of US$571 million and no debt

Commenting on the results, Sergey Stepanov, General Director of Raspadskaya, said:

"The year 2019 was the third one a price cycle of relatively high coal prices. However, in the fourth quarter, prices dropped significantly. At the same time, the Company's stable work in 2019 allowed us to overcome existing market challenges. Nevertheless, we understand that 2020 will require us to make additional efforts to restructure and reduce costs.

The Company continues to focus on the safety issues facing employees and contractors. After the tragic incident with the crew bus on 8 February 2019, a new programme was implemented, including the purchase of crew buses with a new design including an internal metal frame. Video monitoring was also enhanced, rooms for handing out outfits were re-equipped in a new way and several other steps were implemented. In 2020, work will continue to develop new measures to enhance safety.

At its meeting on 19 March 2020, the Board of Directors discussed Raspadskaya's 2019 results and profit distribution. The Board considered the following significant factors and trends in the global economy and coal industry during the discussion to determine the dividend size for 2019:

- Lower prices in the coal industry during the year: in Q4 2019, the weighted average price of coal concentrate was down 28% year-on-year, an unfavourable forecast for 2020 prices.
- Reduced production volumes at Razrez Raspadsky's open pit: this started in Q3 2019 with an aim of excluding low-margin export shipments and increasing warehouse stockpiles.
- The coal industry's economic and production risks: there is a high share of fixed costs and work is performed in difficult geological and hazardous production conditions.
- The significant unforeseen circumstances in early 2020: this refers specifically to the spread of COVID-19 virus and drop in oil prices. The impact of these factors on the global economy as well as Russia is currently difficult to accurately assess and may lead to adverse consequences for the Company's financial results.

Informed by these global factors and trends, the Board determined that it is necessary for the Company to maintain sufficient financial reserves in the form of cash balances.

Taking into account the dividend guidance which was approved in March 2019 the Board recommended that the Annual General Meeting of shareholders approve a dividend for 2019 in the amount of RUB2.83 per share or a total of RUB1.9 billion (around US$25 million)."

Management discussion and analysis of financial standing and operational results for 2019

This discussion and analysis should be read in conjunction with the consolidated financial statements of Raspadskaya for 2019, prepared in accordance with International Financial Reporting Standards.

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 Company is located in the town of Mezhdurechensk, in the Kemerovo region of Russia, and includes: 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.

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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 2019, the Company extracted 12.8 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.

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, 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 2,400mm.

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 in order to reduce the oxygen content.

Modern tunnelling machines are being introduced and these 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.

In addition to the Lock-Out/Tag-Out (LOTO) programme for energy isolation, the Electronic Device Permitted system allows more effective control over the quality of the process of preparing for work in an environment of elevated risk.

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 realised: 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.

On the basis of the analysis of injury data, programmes are being developed and implemented 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 will be used for the planning and implementation of safety programmes.

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

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 customers 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. Business disruptions in mining mainly relate to production safety. 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. Records of minor disruptions are regularly reviewed to identify any more significant underlying issues.

Information security 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.
At the same time, digitalisation increases companies' information security vulnerabilities.

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

Raspadskaya 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. Raspadskaya's performance may be significantly affected by these changes. The Company's functional currency is the Russian ruble, and its assets, revenue and expenses are denominated mostly in rubles, while the presentation currency in the financial statements is the US dollar.

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

	2019	**2018**	**Change, %**
Average exchange rate, RUB/US$	64.7362	62.7078	3
	31.12.19	**31.12.18**	**Change, %**
Exchange rate, RUB/US$	61.9057	69.4706	(11)

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 the Company's production capacity, including equipment productivity and mining conditions.

Raspadskaya's business activity depends on its ability to maintain a stable production level. 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 Company's activities.

Coking coal supply and demand

Raspadskaya'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 domestic and global macroeconomic conditions.

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

Important factors that influenced the supply-demand balance in 2019 included increased steel production amid a downward price trend on the global steel market, reduced demand for steel in Europe and relatively weak steel demand growth in India. Another important factor was the reduction in demand for blast-furnace coke on both the domestic and global markets. A factor on the supply side was the activities of competitors.

Raspadskaya intends to remain competitive primarily by implementing cost reduction programs, maintaining an optimal price to quality ratio, concluding long-term contracts and developing relations with current and potential customers.

Coking coal sale prices

Both domestic and export prices for coking coal have a material impact on revenue and therefore Raspadskaya'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 2019, the Company supplied coking coal products to all main Russian customers under long-term contracts. Internal prices are primarily set quarterly based on global trends.

The prices for export sales depend on international quarterly and spot benchmarks for hard and semi-soft coking coal using appropriate premiums or discounts.

In 2019, 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 price of the Company's coal concentrate rebased to common delivery terms (FCA Mezhdurechensk).

	2019	**2018**	**Change, %**
	US$/t		
Average selling price	89.9	107.3	(16)

The selling price of coal concentrate may differ depending on specific civil obligations with counterparties in accordance with the applicable trade and marketing policy according to the markets of presence: the domestic market, the European market, the market of Asia-Pacific countries.

In 2019, all of Raspadskaya's sales prices continued to follow the global benchmarks and indexes.

Sales through East Metals AG

To expand the customer base and promote products on export markets, Raspadskaya 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 2019, as part of its authority as a trading agent, RUK re-sold 9 million tonnes of coal products from Yuzhkuzbassugol/Mezhegeyugol for a total of US$796 million, with cost of sales of US$780 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US$16 million, as included in "Rendering of services" in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US$14 million in Trade and other receivables, US$23 million in Receivables from related parties and US$137 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)	2019	2018
Revenue		
Rendering of services	16	21

Statement of Financial Position

(US$ million)	31.12.2019	31.12.2018
Current assets		
Advances paid	1	-
Trade and other receivables	14	13
Receivables from related parties	23	141
Short-term liabilities		
Payables to related parties	137	326
Net payables to Yuzhkuzbassugol / Mezhegeyugol from agent sales	**(99)**	**(172)**

Sales volumes

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

	2019		2018			
	Vol	**Share**	**Vol**	**Share**	**Change**	**Change, %**
	'000 t		*'000 t*		*'000 t*	
Coal concentrate – Russia	**2,334**	***31%***	***2,200***	***31%***	**134**	**6**
Incl. EVRAZ	1,591	*21%*	749	*10%*	842	n/a
Coal concentrate – export	**5,309**	***69%***	**4,973**	***69%***	**336**	**7**
Europe	1,182	*15%*	1,082	*15%*	100	9
Incl. EVRAZ	-	-	84	*1%*	(84)	(100)
Asia-Pacific	4,127	*54%*	3,892	*54%*	235	6
Coal concentrate – total	**7,643**	***100%***	**7,173**	***100%***	**469**	**7**
Raw coal – Russia	2,040		1,957		83	4
Incl. EVRAZ	1,949	*92%*	1,664	*82%*	285	17
Raw coal – Europe	84		78		6	8
Concentrate and raw coal	**9,767**		**9,208**		**559**	**6**

In 2019, overall coal product sales rose by 6% year-on-year to 9.8 million tonnes.

The share of coal products sold to EVRAZ steel mills stood at 36% of total sales, while sales volumes to EVRAZ plants rose to 3.5 million tonnes in 2019, compared with 2.5 million tonnes in 2018, due to the expansion of the product portfolio.

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 remained flat year-on-year and amounted to 69% or 5.3 million tonnes of which 78% accounted for shipments to countries in the Asia-Pacific region and 22% to Europe. Shipments to Europe amounted to 15% of the total volume of concentrate sales in 2019, which is similar to 2018. The Company continues to develop its client base and foster relationships with existing clients.

Domestic coal concentrate sales increased by 6% year-on-year in 2019 to 2.3 million tonnes, due to the expansion of the product portfolio.

Overall raw coal sales totalled 2.1 million tonnes (up 4.4 % year-on-year).

During 2019, the Company remained focused on the geographical diversification of sales, as well as maintaining the balance between long-term contracts and spot deliveries.

Revenue

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

	2019		**2018**			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Coal concentrate – Russia	285	*35%*	275	*31%*	10	4
Coal concentrate – export	401	*49%*	499	*56%*	(98)	(20)
	686	***84%***	**774**	***87%***	**(88)**	**(11)**
Raw coal – Russia(1)	128	*16%*	109	*12%*	19	17
Raw coal – Europe	1	*0%*	4	*0%*	(3)	(73)
	815	***100%***	**887**	***100%***	**(72)**	**(8)**
Transport costs in sales price (2)	26		33		(7)	(21)
Sales of other goods	107		117		(10)	(9)
Rendering of services	48		48		-	-
Revenue	**996**		**1,085**		**(89)**	**(8)**

(1) Excluding sales of associated coal of 154 thousand tonnes in 2019 and 117 thousand tonnes in 2018.
(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

In 2019, revenue from the sale of coal products, rebased to common delivery terms (FCA Mezhdurechensk) dropped by US$72 million, down 8% year-on-year, due to a reduction in prices (FCA) of 16% year-on-year.

The transport component in the sales price fell by 21% year-on-year. Excluding exchange-rate factors, the fall amounted to 21% due to the decrease in sales volumes to Ukraine (delivered on DAP terms).

During 2019, the sales of other goods was lower year-on-year, due to a reduction in revenue from the resale of coal purchased from third-party enterprises (volume factor), while revenue from the sale of material and equipment to the enterprises of Yuzhkuzbassugol grew in year-on-year terms amid higher prices and greater consumption.

Services provided consist largely of services for Yuzhkuzbassugol, which is part of the EVRAZ group, and coal product transport services for other coal enterprises in the region. Service provided also included the commission for RUK from resales of coal from Yuzhkuzbassugol, the decrease in which was driven by the decline in coal product prices.

Given the decrease in revenue from coal products (FCA), as well as the reduction in revenue from the sale of other goods and services, total revenue fell by 8% year-on-year in 2019.

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:

	2019	2018	Change	Change, %
		'000 t		
Raw coal extraction	12,824	12,740	84	1%
Raw coal preparation	11,042	10,878	164	2%
Coal concentrate production	7,724	7,518	206	3%
Concentrate yield	70.0%	69.1%		

	2019	2018	Change	Change, %
		'000 t		
Raspadskaya (GZh)	6,892	5,975	917	15
Razrez Raspadsky (GZh, GZhO)	3,537	4,517	(980)	(22)
Raspadskaya-Koksovaya (K, KO)	831	501	330	66
Raspadskaya-Koksovaya, open-pit (OS, KS)	1,564	1,747	(183)	(10)
Total	**12,824**	**12,740**	**84**	**1**

In 2019, the total amount of raw coal mined at all of the Company's facilities was 12.8 million tonnes (up 1% year-on-year). The growth in output was caused by increased production at the Raspadskaya mine (up 15% year-on-year) due to the resumption of work on three longwalls, as well as by greater production from the underground mine at Raspadskaya-Koksovaya due to the transition to extraction from longwalls instead of the room and pillar mining method.

During the reporting period, the open pit mining site at the Raspadskaya-Koksovaya mine continued stable work at the level of its annual production capacity of 1.6 million tonnes of raw coal. Beginning in Q3 2019, raw coal extraction at the Razrez Raspadsky open pit was limited to exclude low-margin shipments and increased warehouse stockpiles amid reduced prices and export sales margins.

Concentrate yield also grew to 70.0% as a result of the enhancements made to the operation process at the washing plant as part of the operational improvement project.

Cost of production and sales

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.

	2019	2018	Change	Change, %
		US$		
Cash cost per tonne of concentrate (1)	31	38	(7)	(18)

(1) From the management accounts

In 2019, the cash cost per tonne of concentrate fell by 18% (down US$7) year-on-year. This was primarily due to higher production volumes at Raspadskaya mine and the devaluation of the ruble during the reporting period.

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

	2019		2018			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
	US$ million					
Payroll and payroll taxes	98	*28%*	87	*26%*	11	13
Taxes	17	*5%*	18	*5%*	(1)	(6)
Materials	100	*29%*	96	*28%*	4	4
Electricity	18	*5%*	17	*5%*	1	6
Other costs	60	*17%*	71	*21%*	(11)	(15)
Cash cost of production	**293**	***84%***	**289**	***86%***	**4**	**1**
Depreciation	41	*12%*	36	*11%*	5	14
Depletion of mining assets	13	*4%*	13	*4%*	-	-
Cost of production	**347**	***100%***	**338**	***100%***	**9**	**3**
Transport expenses	59		45		14	31
Cost of goods resold	103		113		(10)	(9)
Changes in work in progress and finished goods	(7)		(18)		11	(61)
Cost of sales	**502**		**478**		**24**	**5**

Payroll and payroll taxes

Payroll and payroll taxes are one of the largest items in the Company's cost of production: 28% in 2019 and 26% in 2018.

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

	2019	**2018**	**Change**	**Change, %**
	US$ million			
Payroll in the cost of production	98	87	11	13
Payroll in general and administrative costs	18	15	3	20
Total payroll	**116**	**102**	**14**	**14**
Average headcount	**6,087**	**5,607**	**480**	**9**

The average headcount grew (+9% year-on-year) in 2019. Payroll for production personnel increased by 13%. Excluding exchange-rate factors, payroll for production personnel rose by 17%, due to: the indexation of salaries; the increase in headcount by 8% due to the launch of a new longwall at the Raspadskaya-Koksovaya mine; the creation of additional positions for stable operations and higher production results; and the creation of new positions as part of HSE projects. Payroll for administrative staff increased by 20%. Excluding exchange-rate factors, this rose by 27% and was due to: the indexation of salaries; the increase of headcount after filling vacant positions; the creation of new positions as part of the operational improvements projects; and the strengthening of the production and technical services teams.

Taxes

The main tax included in production costs is the mineral extraction tax. During the reporting period, the mineral extraction tax was practically unchanged in year-on-year terms. Meanwhile, the property tax was reduced due to amendments in the tax legislation regarding the tax exclusion on movable property from 1 January 2019.

Materials and electricity

In 2019, material costs rose by 4% year-on-year. Excluding exchange-rate factors, material costs increased by 11% due to growth in consumption and prices as well as due to higher consumption of third-party raw coal used for the production of mixed concentrate.

Excluding exchange-rate factors, spending on electricity increased by 6% year-on-year. This was primarily due to an average tariff hike of 7% year-on-year

Depreciation and depletion of mining assets

Depreciation and depletion of mining assets account for a substantial part of the Company's production costs: 16% in 2019 and 15% in 2018. Depreciation and depletion of assets in 2019, excluding exchange-rate factors, rose by 14% year-on-year. This increase was due to the installation in 2018 of cleaning, tunnelling and other mining equipment at the Raspadskaya mine.

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 2019, transport expenses increased due to:

- a recognition of expenses related to the coal and rock mass transportation, bulldozer works in the open-pit mining operations of Raspadskaya-Koksovaya mine (in 2018 were recognized at the "Other expenses" item)
- a hike in tariffs on third-party road freight and
- an increase in the storage of concentrate at the Raspadskaya washing plant.

Cost of goods resold

In 2019, the cost of goods resold fell year-on-year, due to a reduction in 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 2019 was due to a growth in residual raw GZh coal at Razrez Raspadsky and GZh and OS grade raw coal at the Raspadskaya washing plant.

Other expenses

Other expenses consist mainly of spending on industrial services. Excluding exchange-rate factors, other expenses decreased by 13% year-on-year in 2019. This decrease in 2019 was due to a recognition of expenses related to the coal and rock mass transportation, bulldozer works in the open-pit mining operations of Raspadskaya-Koksovaya mine at the "Transport expenses" item.

Other income and expenses

Selling and distribution costs

These costs are included in revenue from the sale of our coal products and amount to US$26 million in 2019 and US$33 million in 2018. Excluding exchange-rate factors, selling expenses in 2019 decreased due to a decrease in sales to Ukraine (delivery on DAP terms).

General and administrative expenses

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

	2019		2018			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Payroll and payroll taxes	18	*55%*	15	*56%*	3	20
Taxes	1	*3%*	1	*4%*	-	-
Materials	1	*3%*	1	*4%*	-	-
Depreciation and depletion	1	*3%*	1	*4%*	-	-
Other expenses	12	36%	9	33%	3	33
	33	**100%**	**27**	**100%**	**6**	**22**

In 2019, general and administrative expenses rose by 22% year-on-year. Excluding exchange-rate factors, general and administrative expenses increased by 30% year-on-year. This increase was caused by: the increase in total salaries due to salary indexation; the filling of vacancies; the creation of new positions as part of the operational improvements projects; the strengthening of the production and technical services teams; and the increase in services related to the implementation of operational improvements projects.

Impairment

The Group impaired certain functionally obsolete items of property, plant and equipment as well as other non-current assets with no plans for further use belonging to Raspadskaya-Koksovaya mine, RUK and Raspadskaya mine and recognised impairment loss in the amount of US$8 million.

The Group assessed that there were no indicators of impairment in 2019 for all cash generating units except MUK-96. Therefore the Group relied on results of the cash-generating units impairment test performed in 2018 for all cash generated units except MUK-96. MUK-96 was impaired based on decision to postpone the launch of mining till 2027. An impairment loss related to MUK-96 amounted to US$147 million in the reporting period.

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.

In 2019, a foreign-exchange rate loss of US$24 million was incurred due to a revaluation of cash and accounts receivable linked to a decline 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 the reporting period totalled US$2 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 2019, income tax amounted to US$57 million and consisted of US$62 million in accrued tax and changes in deferred income tax and liabilities totalling US$5 million. The main part of the change in deferred assets and liabilities is the set-off of the accumulated tax losses of previous years in the reduction of current taxable profit.

EBITDA

The table below gives the Company's EBITDA:

	2019	2018	Change	Change, %
	US$ million			
Profit for the period	**208**	**448**	**(240)**	**(54)**
Adjusted for:				
Social expenses	2	1	1	100
Foreign-exchange gain/(loss)	24	(23)	47	n/a
Interest income	(25)	(10)	(15)	n/a
Interest expense	2	3	(1)	(33)
Other non-operating loss	1	-	1	100
Loss on disposal of property, plant and equipment	-	2	(2)	(100)
Impairment of assets	155	1	154	n/a
Income tax	57	118	(61)	(52)
EBIT	**424**	**540**	**(116)**	**(21)**
Adjusted for:				
Amortisation and depletion of mineral reserves	54	49	(5)	(7)
EBITDA	**478**	**589**	**(111)**	**(19)**
EBITDA margin	48.0%	54.3%		

Liquidity

The Company's primary source of liquidity is cash generated from operating activities.

The table below gives the Company's cash flow statement.

	31.12.2019	30.06.2018	Change	Change, %
	US$ million			
Cash and cash equivalents at beginning of period	**67**	**45**	**22**	**49**
Cash from operating activities	362	358	4	1
Purchases of property, plant and equipment	(76)	(53)	(23)	43
Sales of property, plant and equipment	3	1	2	n/a
Loans issued to related parties	(332)	(271)	61	(23)
Repayment of loans by related parties	618	24	594	n/a
Proceeds from loans from related parties	2	-	2	n/a
Repayment of loans received from related parties, including interest	(2)	(37)	35	(95)
Share buyback	(46)	-	(46)	n/a
Dividends paid	(27)	-	(27)	n/a
Other types of investment activity	1	1	-	-
Effect of foreign-exchange rates on cash and cash equivalents	1	(1)	2	n/a
Cash and cash equivalents at end of period	**571**	**67**	**504**	n/a

Raspadskaya 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:

	31.12.19	31.12.18	Change	Change, %
	US$ million			
Inventories	86	69	17	25
Accounts receivable (including Receivables from related parties)	354	498	(144)	(29)
Prepayments	24	11	13	118
Taxes recoverable	58	66	(8)	(12)
Less:				
Payables receivable (including Payables to related parties)	(300)	(477)	177	(37)
Taxes payable	(22)	(63)	41	(65)
Contract liabilities	(1)	-	(1)	n/a
Working capital	**199**	**104**	**95**	**91**

Capital expenditure

The table below summarises the Company's capital expenditure:

	2019	2018	Change	Change, %
Financing of investments, US$ million	76	53	23	43
Financing of investments per tonne of raw coal mined, US$	5.9	4.2	1.7	42

In 2019, financing for capital expenditures rose by 43% year-on-year. Excluding exchange-rate factors, capital expenditures climbed by 47% year-on-year. This growth was due to: the implementation of the equipment replacement programme at Razrez Raspadsky during the reporting period; the acquisition of cleaning equipment for the Raspadskaya mine to replace worn-out equipment; equipment repairs for the launch of longwalls at seams 6 and 7 of the Raspadskaya mine; the acquisition of equipment in H1 2019 for the Raspadskaya washing plant; and the investment in the longwall coal mining operations at the Raspadskaya-Koksovaya mine (launched in H1 2019).

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.