

Raspadskaya announces IFRS results for 2016

Moscow, 24 March 2017 – Raspadskaya (MOEX: RASP; “Raspadskaya” or “the Company”) today announces its consolidated results for 2016 in accordance with IFRS.

Financial performance	2016	2015	Chg	Chg, %
	<i>US\$ million</i>			
Revenues	502	419	83	20
Cost of sales	(292)	(299)	7	(2)
Gross profit/(loss)	210	120	90	75
<i>Gross profit margin</i>	42%	29%		
Selling and distribution costs	(17)	(20)	3	(15)
General and administrative costs	(20)	(25)	5	(20)
Social expenses	(1)	(1)	-	-
Loss on disposal of PP&E	(1)	(3)	2	(67)
Impairment of assets	34	(66)	100	n/a
Foreign-exchange gains/(losses)	77	(111)	188	n/a
Other operating income	1	3	(2)	(67)
Other operating expenses	(12)	(16)	4	(25)
Operating profit/(loss)	271	(119)	390	n/a
Gain from sale of financial assets	0	1	(1)	(100)
Interest income	0	1	(1)	(100)
Interest expenses	(38)	(39)	1	(3)
Profit/(loss) before tax	233	(156)	389	n/a
Profit tax	(48)	30	(78)	n/a
Profit/(loss) for the period	185	(126)	311	n/a
Profit/(loss) per share, cents	26.3	(17.9)		
EBIT	162	62	100	n/a
EBITDA	204	106	98	92
<i>EBITDA margin</i>	40.6%	25.3%		
Capital expenditures (CAPEX)	38	36	2	6
	31.12.16	31.12.15		
Debt	434	489	(55)	(11)
Net debt	399	441	(42)	(10)

HIGHLIGHTS

- Revenues totalled US\$502 million in 2016, up 20% year-on-year
- EBITDA amounted to US\$204 million, an increase of US\$98 million from 2015, and the EBITDA margin rose by 15.3 percentage points year-on-year to 40.6%
- Net operating cash flow was US\$172 million, compared with US\$104 million in 2015
- The Company generated net profit of US\$185 million in the reporting period, compared with a net loss of US\$126 million in 2015
- On 23 March 2017, the Board of Directors decided not to recommend dividend payments for 2016 with a view to preserve the financial standing of the Company taking into account its leverage and to support development plans.

- Overall coal production (all grades) totalled 10.5 million tonnes, compared with 10.4 million tonnes in 2015
- The estimated cash cost of 1 tonne of coal concentrate fell by 4% year-on-year to US\$26 per tonne
- The actual average selling price of semi-hard coking coal concentrate, rebased to common delivery terms (FCA Mezhdurechensk), amounted to US\$60.2 in all regional markets, including US\$72.1 in the domestic market, US\$57.4 in Europe and US\$51.0 in the Asia-Pacific region
- CAPEX totalled US\$38 million in the reporting period, compared with US\$36 million in 2015
- As of 31 December 2016, the Company's net debt amounted to US\$399 million. Total debt consists mainly of long-term debt in the form of an intragroup loan from EVRAZ amounting to US\$29 million, and short-term debt consisting mainly of 7.75% Eurobonds issued by Raspadskaya Securities DAC totalling US\$400 million.

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

“The market saw its first improvement in a long time in 2016, driving product prices significantly higher. Production volumes at Razrez Rapsadsky also grew sizeably in the reporting period, up 25% year-on-year. This growth was thanks to management and staff efforts to improve production efficiency. In 2017, the Company targets production volumes of around 10 million tonnes of raw coal overall.

These efforts have allowed Raspadskaya to close the year with strong EBITDA of US\$204 million (compared with US\$106 million in 2015) and an EBITDA margin of 40.6%. This helped the Company post its first positive bottom line in a long time, with net profit of US\$185 million in 2016 versus a net loss of US\$126 million in 2015.

Raspadskaya's top priority remains fostering a safety culture among its staff. In 2016, further implementation of safety initiatives drove the number of workplace injuries down from 75 in 2015 to 62 in 2016. Efforts to improve transparency in the disclosure of accidents at work saw the lost-time injury frequency rate (LTIFR) rise from 7.60 in 2015 to 7.79 in 2016. Sadly, we were unable to avoid the loss of life in 2016, as there was one fatality in the reporting period. Safety remains our overriding priority.”

Management's discussion and analysis of financial condition and results of operations for the year ended 31 December 2016

This discussion and analysis should be read in conjunction with the interim condensed consolidated financial statements of Rapsadskaya for 2016, prepared in accordance with International Financial Reporting Standards .

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

Rapsadskaya 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 three underground mines (Rapsadskaya, MUK-96 and Rapsadskaya-Koksovaya), one open-pit operation (Razrez Rapsadsky), a coal preparation plant, several coal transportation and production infrastructure enterprises, a trading company and a management company.

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Mineral reserves and resources

Raspadskaya has reserves of more than 1.3 billion tonnes of high-quality semi-hard coking coal of Zh, GZh, GZhO grades and hard coking coal of K and KO grades. At current rates of production, the Company's reserves and resources will allow it to extract coking coal for more than 90 years.

The table below details Raspadskaya's JORC-equivalent reserves of coking coal as at 31 December 2016.

Mine	Proved and probable, '000 tonnes
Raspadskaya	876,627
MUK-96	131,876
Raspadskaya-Koksovaya	179,513
Razrez Raspadsky	134,417
Total	1,322,433

Semi-hard coking coal includes coal of the GZh (gas fat) and Zh (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) and KO (coking semi-lean) 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 2016, Raspadskaya mined 10.5 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.

In addition, any reduction in the availability of long-term funding constrains the Company's ability to invest in the business.

Raspadskaya 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

Safety and environmental risks are inherent to the Company's main business activity. In addition, Raspadskaya's operations are subject to a wide range of HSE laws, regulations and standards, and the breach of any may result in fines, penalties, the suspension of production, or other sanctions. Such events could have a materially adverse effect on the Company's activities, financial standing and/or business prospects.

HSE issues are overseen directly at the Board level, and HSE procedures and material issues are given top priority at all internal management meetings. Management KPIs place significant emphasis on safety performance. The Company has initiated a programme to improve the management of safety risks in all divisions, with the aim of instituting a new safety culture at all management and operational levels. It continues to focus on standardising Critical Safety programmes, energy isolation programme, or Lockout Tryout (LOTO). The Company has introduced a programme of Behaviour Safety Observations to drive a more proactive approach to preventing injuries and incidents.

In addition, based on analysis of injuries reported in 2014-15, the Company introduced new information programmes and training on safety in 2016. To educate staff about occupational health and safety on a rolling monthly basis, Raspadskaya is implementing an IT system, "Monthly Feedback", which will provide visual material about safety and then test employees' knowledge. The main aim of the system is to increase awareness

and cultivate a safety-based culture. In general, the Company is undertaking major efforts to promote occupational safety. In 2016, it held its second annual brainstorming event for young workers, “Safety First”, which proposed and devised technical solutions for avoiding injuries in the workplace, as well as a range of promotional campaigns. The best suggestions from 2015 have already been introduced at Raspadskaya enterprises. To continue this work, a Safety Club was created at which young employees discuss safety issues and propose original solutions.

The Company also launched new safety training programmes for mining dispatchers, first aid providers, and surface electrical personnel. A special training centre has been created for the surface electrical training that contains real examples of the equipment that the electricians use to practise safe working conditions and using personal protective equipment.

The Company began implementing the following initiatives in 2016: improving the ventilation and air-gas monitoring system, preventing spontaneous combustion during longwall work, preventing mine collapses, and reducing tension in the rock mass.

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 limit the Company’s 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 all of these risks are mostly not within 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.

Treasury

Raspadskaya faces various treasury 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, as mentioned above, potential actions by governments, including foreign government sanctions impacting Russian entities, may increase the Company’s capital market risk in respect of new funding issues.

In addition, the risk of inflation could impact operating costs and free cash flow.

Liquidity risk is managed by programmes to optimise net working capital, CAPEX and costs.

Business disruption

Prolonged outages or production delays could have a material adverse effect on Raspadskaya’s operating performance, financial standing and future prospects. In addition, long-term business disruption may result in loss of customers and competitive advantages, and damage 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 reviewed to identify any more significant underlying issues.

Exchange rates

When reviewing this discussion and analysis, it is important to consider fluctuations in the US dollar/Russian rouble exchange rate. Raspadskaya’s performance may be significantly affected by these changes. The Company’s

functional currency is the Russian rouble, and its assets, revenues and expenses are denominated mostly in roubles, 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.

	2016	2015	Chg, %
Average exchange rate, RUB/US\$	67.0349	60.9579	10%
	31.12.16	31.12.15	
Exchange rate, RUB/US\$	60.6569	72.8827	(17%)

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. Some of the latter may lead to substantial disruptions to the production process.

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.

Supply of and demand for coking coal

The operating and financial results of Raspadskaya are highly dependent on the balance of supply and demand for coking coal 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 and any surplus volumes are exported.

One important factor influencing the domestic supply-demand balance is the overall decline in demand for steel in the automotive, construction and engineering industries. As a result, Russian coke producers are consuming less coking coal.

A factor on the supply side is the activities of competitors. Given the current situation in the market, the appearance of new players could significantly affect competition.

Raspadskaya intends to maintain its competitiveness primarily through cost reduction programmes, an optimal price-to-quality ratio, long-term contracts with customers, and the development of customer relations.

Coking coal sale prices

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

Coking coal is sold either under long-term contracts or in 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 roubles for domestic sales and US dollars for export sales.

In 2016, the Company supplied coking coal products to all main Russian customers under long-term contracts and transitioned to adjusting volumes and prices monthly based on a price formula that accounts for global trends.

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

In 2016, 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).

	2016	2015	Chg, %
	<i>US\$/t</i>		
Russia	72.1	61.4	17%
Europe	57.4	53.8	7%
Asia-Pacific	51.0	36.0	42%
Average	60.2	48.4	24%

In 2017, all of Raspadskaya's domestic and export sales prices continue to follow the global benchmarks, which were the following as of March 2017: US\$285/t for hard coking coal, Australia FOB quarterly and US\$171/t for semi-soft coking coal, Australia FOB quarterly.

Sales through East Metals AG

To expand the customer base and promote products on export markets, Raspadskaya makes major part 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 railroad 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.

Creation of a management company using RUK

Management of the assets of Yuzhkuzbassugol

On 10 February 2015, RUK, a Raspadskaya subsidiary, undertook the management of Yuzhkuzbassugol, part of the EVRAZ group. Since that date, all materials and equipment for Yuzhkuzbassugol have been purchased through RUK.

Beginning in 2015, all coal produced by Yuzhkuzbassugol, which is under common control with the Company, is sold via RUK. As the trading agent, RUK receives commission on the sales.

As part of its authority as trading agent, in 2016, RUK re-sold 9.0 million tonnes of coal products from Yuzhkuzbassugol for a total of US\$644 million, with cost of sales of US\$631 million and selling expenses of US\$2 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US\$11 million, as included in "Rendering of services" in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US\$13 million in Trade and other receivables, US\$250 million in Receivables from related parties and US\$401 million in Payables to related parties.

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

Statement of Comprehensive Income:

<i>(US\$ million)</i>	2016	2015
Revenues		
Rendering of services	11	6

Statement of Financial Position:

<i>(US\$ million)</i>	31.12.2016	31.12.2015
Current assets		
Trade and other receivables	28	17
Receivables from related parties	234	87
Short-term liabilities		
Payables to related parties	401	129
Net payables to Yuzhkuzbassugol from agent sales	139	25

Sales volumes

The table below details Rospadskaya's coal concentrate sales volumes.

	H1 2015	H2 2015	H1 2016	H2 2016
Russia	1,673	1,139	1,220	1,350
Europe	308	185	291	146
Asia-Pacific	1,384	1,757	1,605	1,585
Export, total	1,692	1,942	1,896	1,731
Total	3,365	3,081	3,115	3,080

The table below details Raspadskaya's coal concentrate and raw coal sales volumes by region.

	2016		2015		Chg,	
	Vol	Share	Vol	Share	Chg	%
	'000 t		'000 t		'000 t	
Coal concentrate – Russia	2,569	41%	2,812	44%	(243)	(9)
Incl. EVRAZ	252	4%	444	7%	(192)	(43)
Coal concentrate – export						
<i>Europe</i>	437	7%	493	8%	(56)	(11)
Incl. EVRAZ	56	1%	201	3%	(145)	(72)
<i>Asia-Pacific</i>	3,190	52%	3,140	48%	50	2
	3,627	59%	3,633	56%	(6)	-
Coal concentrate – total	6,196	100%	6,445	100%	(249)	(4)
<i>Raw coal – Russia</i>	243		813		(570)	(70)
Incl. EVRAZ	129	53%	590	60%	(461)	(78)
<i>Raw coal – Europe</i>	0		176		(176)	(100)
Concentrate and raw coal	6,439		7,434		(995)	(13)

Overall coal product sales volumes fell by 13% year-on-year to 6.4 million tonnes in 2016.

In 2016, the share of coal products sold to EVRAZ enterprises stood at 7% of total coal product sales, compared with 17% in 2015. The volume sold to EVRAZ entities fell from 1.2 million tonnes in 2015 to 0.4 million tonnes in 2016, largely as a result of reduced KO-grade concentrate production due to suspension of operations at field No 1 at Raspadskaya-Koksovaya after carbon monoxide was detected in Q3 2015.

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

In 2016, the Company increased the share of exports in overall concentrate sales to 59%, or 3.6 million tonnes, of which 88% went to the Asia-Pacific and 12% to Europe.

Domestic coal concentrate sales fell by 9% year-on-year to 2.6 million tonnes due to suspension of operations at field No1 at Raspadskaya-Koksovaya, which sold all of its KO-grade coal on the domestic and Ukrainian markets.

Overall raw coal sales volumes dropped by 70% year-on-year to 243 thousand tonnes due to lower KO-grade coal production and a reduction in oxidized coal shipments as the Company decided to focus on higher-priority coal concentrate sales in a growing market.

In the reporting period, the Company increased the share of sales to the Asia-Pacific, from 48% in 2015 to 52% in 2016, successfully expanding its client base there, including in Japan and South Korea.

In 2017, Raspadskaya will focus on diversifying its sales geography and maintaining balance between long-term contracts and spot deliveries.

Revenues

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

	2016		2015		Chg	Chg, %
	Amount	Share	Amount	Share		
	<i>US\$ million</i>					
Coal concentrate – Russia	185	49%	173	51%	12	7%
Coal concentrate – export	188	50%	140	41%	48	34%
	373	99%	313	92%	60	19%
Raw coal – Russia ⁽¹⁾	5	1%	24	7%	(19)	(79)%
Raw coal – Europe	0	0%	4	1%	(4)	(100)%
	378	100%	341	100%	37	11%
Transport costs in sales price ⁽²⁾	13		17		(4)	(24)%
Sales of other goods	75		38		37	97%
Rendering of services	36		23		13	57%
Revenues	502		419		83	20%

(1) Excluding sales of associated coal of 126 thousand tonnes in 2016 and 72 thousand tonnes in 2015

(2) Consists of railway costs, handling and other services in ports and freight services that are included in the sales price of the Company's coal concentrate under delivery terms other than FCA Mezhdurechensk

Revenues from sales of coal products, rebased to common delivery terms (FCA Mezhdurechensk), grew by US\$37 million in 2016 (up 11% year-on-year) due to an increase in the FCA price of 24%.

The decrease in the transport component in the sales price (from US\$17 million to US\$13 million) was caused by a switch from CPT to FCA terms for deliveries to EVRAZ' Ukrainian subsidiaries.

Raspidskaya sells other goods and services in Russia only. Sales of other goods increased due to centralised purchases of materials and equipment for Yuzhkuzbassugol, as well as to growth in resale volumes of coal purchased from third parties.

Services provided consists largely of services for Yuzhkuzbassugol, which is part of the EVRAZ group and coal product transport services for other coal enterprises in the region.

Given the increase in revenues from coal products (FCA) and in the sales of other goods, overall revenues rose by 20% year-on-year in 2016.

Production volumes

Raspidskaya's production volumes depend on capacity and demand.

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

	2016	2015	Chg	Chg, %
	<i>'000 tonnes</i>			
Raw coal extraction	10,512	10,353	161	2
Raw coal preparation	9,716	9,217	499	5
Coal concentrate production	6,218	6,396	(178)	(3)
Concentrate yield	64.0%	69.4%		

The table below breaks down the Company's production volumes by mine.

Mine	Coal grade	2016	2015	Chg, %
<i>'000 tonnes</i>				
Raspadskaya	GZh	5,683	5,504	3
Razrez Raspadsky	GZh/GZhO	4,367	3,500	25
Raspadskaya- Koksovaya	K	462	1,001	(54)
MUK-96*	GZhO	-	348	(100)
TOTAL		10,512	10,353	2

* Put on care and maintenance in 2015

Raspadskaya increased the volume of raw coal mined by 2% year-on-year to 10.5 million tonnes in 2016 despite the suspension and mothballing of some assets in 2015: the high-cost MUK-96 mine to improve the Company's economics, and field No 1 at Raspadskaya-Koksovaya after carbon monoxide was detected in Q3 2015.

That said, the total output of assets that continued to operate in 2016 (the Raspadskaya mine, Razrez Raspadsky and field No 2 at Raspadskaya-Koksovaya) increased by 5% year-on-year.

Production volumes at Razrez Raspadsky grew sizeably in the reporting period, up 25% year-on-year to 4.4 million tonnes..

Coal processing volumes at Raspadskaya's preparation plant rose by 0.5 million tonnes year-on-year in 2016. Concentrate yield fell from 69.4% to 64.0% due to increased ash content of coal inputs from the Raspadskaya mine, which drove concentrate production down by 0.2 million tonnes.

Room-and-pillar mining of premium K-grade coal continues at field No 2 at Raspadskaya-Koksovaya.

Two new coal longwalls were launched at the Raspadskaya mine in 2016: in June, the 5a-7-30 longwall with reserves of 2.8 million tonnes of coal; and in October, the 4-10-29 longwall with reserves of 2.4 million tonnes of GZh-grade coking coal.

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.

	2016	2015	Chg	Chg, %
	<i>US\$</i>			
Cash cost per tonne of concentrate ⁽¹⁾	26	27	(1)	(4)

(1) From the management accounts

The cash cost per tonne of concentrate fell by 4% year-on-year in 2016, mainly due to changes in the US\$/RUB exchange rate. In rouble terms, the cash cost per tonne of concentrate rose by 5% due to a reduction of coal concentrate yield.

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

	2016		2015		Chg	Chg, %
	Amount	Share	Amount	Share		
	<i>US\$ million</i>					
Payroll and payroll taxes	74	31%	87	33%	(13)	(15)
Taxes	9	4%	9	3%	0	0
Materials	45	21%	78	30%	(33)	(42)
Electricity	12	5%	13	5%	(1)	(8)
Other costs	32	14%	34	13%	(2)	(6)
Cash cost of production	172	81%	221	84%	(49)	(22)
Amortisation	29	12%	27	10%	2	7
Depletion of mining assets	11	5%	15	6%	(4)	(27)
Cost of production	212	100%	263	100%	(51)	(19)
Transport expenses	12		6		6	100
Cost of goods resold	68		30		38	n/a
Cost of sales	292		299		(7)	(2)

Payroll and payroll tax

Payroll and payroll taxes are one of the largest items in the Company's cash cost of production: 31% in 2016 and 33% in 2015.

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

	2016	2015	Chg	Chg, %
	<i>US\$ million</i>			
Payroll in the cost of production	74	87	(13)	(15)%
Payroll in general and administrative costs	12	16	(4)	(25)%
Payroll in other operating expenses	5	5	-	-
Total payroll	91	108	(17)	(16)%
Average headcount	5,853	7,294	(1,441)	(20)%

The average headcount decreased by 20% year-on-year in 2016 due to the centralisation of management functions, the outsourcing of the car transport and mining equipment assembly/disassembly functions, as well as optimisation of other support staff, which reduced the payroll by 7% excluding the effect of exchange rate movements.

Taxes

The main tax included in production costs is the mineral extraction tax (MET). Tax payments remained at the 2015 levels.

Materials and electricity

Material costs decreased by 13% year-on-year in 2016. Excluding exchange-rate movements, material costs fell by 37% due to putting on care and maintenance of MUK-96 mine and suspension of operations at field No1 at Rapsadskaya-Koksovaya and lower purchases of third-party raw materials for the production of specific coal concentrate blends.

Excluding exchange-rate movements, spending on electricity remained at the level of 2015.

Amortisation and depletion of mining assets

Amortisation and depletion of mining assets account for a substantial part of the Company's production costs: 17% in 2016 and 16% in 2015.

Excluding exchange-rate movements, amortisation in production costs rose as a result of increased capital expenditure at the Rapsadskaya mine.

Transport costs

Transport costs consist of domestic road freightage, as well as coal shipments to the Rapsadskaya preparation plant by both rail and road.

Transport costs rose in 2016 due to increased outsourcing volumes after the Company transferred some of its staff to Yuzhkuzbassugol's auto transport company in April 2015, as well as because of a 5% rise in the volumes of coal shipments to the Rapsadskaya concentrate plant.

Cost of goods for resale

The cost of goods for resale rose in proportion to the rise in revenues from goods sold. This was mainly due to the centralisation of third-party material and equipment purchases for Yuzhkuzbassugol.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist of railway costs and freight-forwarding support (freight) that Rapsadskaya incurs after the right of ownership is transferred to buyers under CPT, DAP and FOB terms. They are included in revenues from sales of coal products and totalled US\$13 million in 2016 and US\$17 million in 2015. These costs fell after contracts with EVRAZ' Ukrainian subsidiaries transitioned from CPT to FCA terms.

Fluctuations in rail tariffs influence the overall cost of coal production for consumers and, as such, can indirectly impact demand for Rapsadskaya's coal from buyers located far from production sites. Rail tariffs rose by 4% (excluding exchange-rate movements) in 2016.

General and administrative expenses

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

	2016		2015		Chg	Chg, %
	Amount	Share	Amount	Share		
	<i>US\$ million</i>					
Payroll and payroll taxes	12	60%	16	64%	(4)	(25)%
Taxes	0	0%	1	4%	(1)	(100)%
Materials	0	0%	0	0%	-	-
Other expenses	7	35%	7	28%	-	-
Amortisation	1	5%	1	4%	-	-
	20	100%	25	100%	(5)	(20)%

In 2016, Rapsadskaya's general and administrative costs decreased by 20% year-on-year, or by 12% in rouble terms.

The largest item in general and administrative expenses is payroll and payroll taxes, which account for 60% of overall costs. Excluding exchange-rate movements, the share of payroll and payroll taxes was 18% due to the centralisation of management functions and headcount optimisation.

Social expenses

As is the case with many large Russian production companies, Rospadskaya has certain social expenses, consisting mainly of charitable donations and spending on social infrastructure maintenance.

Impairment of assets

In 2016, the Group recognised gain from reversal of impairment as a result of the impairment testing at the level of cash-generating units. In addition, the Group made a write-off of certain functionally obsolete items of property, plant and equipment.

Foreign-exchange differences

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

In 2016, Rospadskaya booked a foreign-exchange gain of US\$77 million arising mainly from Rospadskaya's Eurobonds in US dollars as the rouble exchange rate against the dollar moved from 72.9 to 60.6.

Other operating income and expenses

Other operating income and expenses consist of atypical, non-recurring income and expenses. In 2016, other operating expenses were US\$4 million lower than in the previous year, mainly due to the costs incurred in 2015 related to decommissioning MUK-96 and extinguishing a fire at field No1 at Rospadskaya-Koksovaya.

The Company has completed the main phase of restoration of the Rospadskaya mine after the accident in May 2010. The restoration costs include compensatory social payments, the cost of extinguishing the fire and pumping out the water, the cost of design and repair work, and the purchase of fixed assets. As of 31 December 2016, the accumulated cost amounted to US\$218 million, of which US\$193 million were included in other operating income and expenses (including US\$1.5 million in 2016).

Interest expense

In 2016 and 2015, the majority of the interest expense was coupon payments on Rospadskaya's Eurobonds. The Company pays US\$31 million each year on its 7.75% Eurobonds with maturity in April 2017. It also pays interest on loans drawn from EVRAZ group structures.

Profit tax

In 2016, profit tax represented the sum of the tax accrued of US\$40 million and the change in the deferred income tax assets and liability of US\$8 million. The main part of the change in the deferred income tax assets and liability was a tax benefit arising from the transfer of losses from previous years against future taxable profit.

EBITDA

The table below gives the Company's EBITDA.

	2016	2015	Chg	Chg, %
	<i>US\$ million</i>			
Profit/(loss) for the period	185	(126)	311	n/a
<i>Adjusted for</i>				
Social expenses	1	1	-	-
Foreign-exchange differences	(77)	111	(188)	n/a
Interest income	0	(1)	1	n/a
Interest expense	38	39	(1)	(3)
Loss from the disposal of PP&E	1	3	(2)	(67)
Impairment	(34)	66	(100)	n/a
Income from the sale of financial assets	0	(1)	1	n/a
Profit tax	48	(30)	78	n/a
EBIT	162	62	100	161
<i>Adjusted for</i>				
Amortisation and depletion of mineral reserves	42	44	(2)	(5)
EBITDA	204	106	98	92
<i>EBITDA margin</i>	<i>40.6%</i>	<i>25.3%</i>		

In 2016, EBITDA was positively affected by an increase in revenues caused by higher global and domestic coking coal prices.

Debt

The table below details the Company's debt.

	31.12.16	31.12.15	Chg	Chg, %
	<i>US\$ million</i>			
Long-term loans	29	483	(454)	(94)
Short-term loans, including current part of long-term loans	405	6	399	n/a
Debt	434	489	(55)	(11)
<i>Less:</i>				
Cash and cash equivalents	(35)	(48)	13	(27)
Net debt	399	441	(42)	10

As of 31 December 2016, the Company's long-term debt consisted of intragroup loans from EVRAZ totalling US\$29 million. Short-term debt consisted mainly of US\$400 million of 7.75% Eurobonds issued by Raspadskaya Securities DAC.

In 2016, as a result of a series of bilateral transactions and two buy-back offers related to the US\$400 million 7.75% Eurobonds issued by Raspadskaya Securities DAC, the majority shareholder of Raspadskaya – EVRAZ Group S.A. – increased its holdings of the bonds from US\$214 million to US\$374 million, or 93.5% of total bonds outstanding.

As of the date of publication of the financial statements for 2016, Raspadskaya complied with all of the covenants stipulated in its loan agreements and is able to freely refinance its debt.

Liquidity

The Company's primary source of liquidity is cash generated from operating activities. Its policy is to finance capital expenditure and pay out interest expenses and dividends primarily from operating cash flows.

The table below gives Raspadskaya's cash flow statement.

	31.12.2016	31.12.2015	Chg	Chg, %
	<i>US\$ million</i>			
Cash and cash equivalents at beginning of period	48	27	21	78
Cash from operating activities	171	104	67	64
Purchases of property, plant and equipment	(38)	(36)	2	6
Proceeds from disposal of property, plant and equipment	3	2	1	50
Proceeds from loans from related parties	60	102	(42)	(41)
Repayment of loans from related parties, including interest	(118)	(120)	(2)	(2)
Repayment of loans, including interest	(31)	(31)	-	-
Loans issued to related parties	(65)	-	65	100
Other investment	2	2	-	-
Effect of foreign-exchange rates on cash and cash equivalents	3	(2)	5	n/a
Cash and cash equivalents at end of period	35	48	(13)	(27)

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.

	31.12.16	31.12.15	Chg	Chg, %
	<i>US\$ million</i>			
Inventories	33	23	10	43
Accounts receivable	468	184	284	154
Prepayments	6	4	2	50
Tax recoverable	38	21	17	81
<i>Less:</i>				
Payables	(503)	(227)	(276)	122
Tax payable	(35)	(15)	(20)	133
Advances	(2)	0	(2)	
Working capital	5	(10)	15	n/a

As at 31 December 2016, working capital amounted to US\$5 million.

Capital expenditure

The table below summarises Raspadskaya's capital expenditure.

	2016	2015		
	Amount	Amount	Chg	Chg, %
Financing of investments, US\$ million	38	36	2	6
Financing of investments per tonne of raw coal mined, US\$ million	3.6	3.5	0.1	4

Financing for capital investments increased by 6% year-on-year in 2016, due to the repair of equipment that had been put on care and maintenance at Razrez Raspadsky but was put back into production as a result of a 17% year-on-year increase in overburden removal.

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.

Miscellaneous

These 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. In response, the Group implemented a number of cost cutting initiatives, reduced capital expenditures, continues to reduce the level of debt and proactively manages its debt covenants compliance. In April 2017 the Group is obliged to repay US\$400 million of loan participation notes US\$374 million of which as at the reporting date are held by the companies under common control with EVRAZ plc. The Group is accumulating own sources of funds for repayment and also agreed borrowings from the companies under common control with EVRAZ plc.

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.

In February 2017 the Group signed the loan agreement with EVRAZ KGOK under which the Group may borrow up to US\$140 million.

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 point): The buyer pays for delivery to the named destination, import duties and local taxes.

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

FOB (free on board): the goods are shipped to the buyer's ship, the seller pays the port handling.