



Raspadskaya Announces IFRS Results for H1 2018

Moscow, 24 August 2018 – PAO Raspadskaya (MOEX: RASP; “Raspadskaya” or “the Company”) today announces its consolidated results for H1 2018 in accordance with International Financial Reporting Standards (IFRS).

| Financial performance | H1 2018 | H1 2017 | Change | Change, % |
|---|-----------------|-----------------|-----------|-----------|
| | US\$ million | | | |
| Revenues | 542 | 439 | 103 | 23 |
| Cost of sales | (236) | (198) | (38) | 19 |
| Gross profit | 306 | 241 | 65 | 27 |
| <i>Gross profit margin</i> | 56% | 55% | | |
| Selling and distribution costs | (14) | (16) | 2 | (13) |
| General and administrative expenses | (12) | (12) | - | - |
| Gain from disposal of property, plant and equipment | 1 | - | 1 | n/a |
| Reversal of impairment/(impairment) of assets | - | 1 | (1) | n/a |
| Foreign exchange gains | 9 | 15 | (6) | (40) |
| Other operating expenses | (4) | (4) | - | - |
| Operating profit | 286 | 225 | 61 | 27 |
| Interest income | - | 1 | (1) | n/a |
| Interest expenses | (2) | (15) | 13 | (87) |
| Profit before income tax | 284 | 211 | 73 | 35 |
| Income tax | (59) | (43) | (16) | 37 |
| Profit for the period | 225 | 168 | 57 | 34 |
| Earnings per share, cents | 32.0 | 23.9 | | |
| EBIT | 276 | 209 | 67 | 32 |
| EBITDA | 303 | 235 | 68 | 29 |
| <i>EBITDA margin</i> | 55.9% | 53.5% | | |
| Capital expenditures (CAPEX) | 26 | 39 | (13) | (33) |
| | 30/06/18 | 31/12/17 | | |
| Debt | - | 38 | (38) | n/a |
| Cash and cash equivalents | 155 | 7 | 148 | n/a |

HIGHLIGHTS

- Revenues totalled US\$542 million in H1 2018, up 23% year-on-year
- EBITDA reached US\$303 million, an increase of US\$68 million from H1 2017, and the EBITDA margin rose to 55.9%, compared with 53.5% in the period last year
- Net operating cash flow was US\$166 million, compared with US\$201 million in H1 2017
- The Company generated net profit of US\$225 million in the reporting period, compared with US\$168 million in H1 2017
- Overall coal production (all grades) totalled 5.4 million tonnes in H1 2018, compared with 6.0 million tonnes in H1 2017
- The cash cost per tonne of coal concentrate rose by 23% year-on-year to US\$38 per tonne

- The actual average selling price of semi-hard coking coal concentrate, rebased to common delivery terms (FCA Mezhdurechensk), amounted to US\$111.0 in all regional markets, including US\$132.1 in the domestic market, US\$113.1 in Europe and US\$99.6 in the Asia-Pacific region
- CAPEX totalled US\$26 million in the reporting period, compared with US\$39 million in H1 2017
- As of 30 June 2018, the Company had cash and cash equivalents of a US\$155 million and no total debt

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

“In the first half of 2018, due to a significant increase in the prices for our products, which was in line with global benchmarks, we ended the reporting period with EBITDA of US\$303 million, compared with US\$235 million in the first half of 2017, and an EBITDA margin of 55.9%. Our net profit for the period was US\$225 million, up from US\$168 million in the same period last year.

Unfortunately, the Company’s overall raw coal production fell by 9% year-on-year to 5.4 million tonnes. However, the open-pit mining volumes at the Raspadskaya-Koksovaya mine continue to grow steadily, in accordance with the production plan, which has allowed us to enhance our product portfolio. In the second half of 2018, mining will begin on a new longwall at the Raspadskaya mine’s horizon no. 10, which will return operations to three longwalls and improve raw coal production volumes.

During the reporting period, we continued to implement initiatives aimed at reducing incidents in the workplace. The number of registered accidents fell from 25 in the first half of 2017 to 18 in the first half of 2018, while the lost-time injury frequency ratio (LTIFR) dropped from 6.68 in the first half of 2017 to 4.86 in the reporting period. I am pleased to report that there were no fatalities during the reporting period involving employees of contractors or the Company’s own staff. We remain focused on safety as our overriding priority.”

Management discussion and analysis of financial standing and operational results for H1 2018

This discussion and analysis should be read in conjunction with the interim condensed consolidated financial statements of Raspadskaya for H1 2018, prepared in accordance with International Financial Reporting Standard (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 a number of 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: the Raspadskaya, MUK-96 (consolidated with Razrez-Raspadsky from 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, GZh and GZhO 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 2017.

| Mine | Proved and probable |
|---|----------------------------|
| | <i>mln t</i> |
| Raspadskaya | 925 |
| Raspadskaya-Koksovaya (includes Razrez Koksovy) | 208 |
| MUK-96 | 113 |
| Razrez Raspadsky | 109 |
| Total | 1,355 |

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), 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 2018, Raspadskaya mined 5.4 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.

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. 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 Raspadskaya'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 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. To ensure the timely identification and mitigation of technological safety risks at Raspadskaya's mines, the Company's occupational safety directorate regularly arranges independent audits of processes and assets, as well as spot checks of mines. Measures to reduce any risks identified are overseen by all levels of the Company's management.

Raspadskaya has adopted and successfully implemented programmes to streamline the main technological safety processes at coal mines (air and gas monitoring, ventilation, spontaneous combustion prevention for coal and gas, and degassing). In 2017, as part of the programme to improve degassing efficiency, high-performance local ventilation fans, high-strength vent pipes and a directional drilling machine is installed. To improve air and gas monitoring, methane concentration data are transmitted in real time from employees' portable gas analysers to multifunctional security systems. The Company continues to focus on standardising Critical Safety programmes and implementing an energy isolation programme, also known as Lockout Tryout (LOTO). It has also introduced a programme of Behaviour Safety Observations to drive a more proactive approach to preventing injuries and

incidents. In 2017, to ensure the safety of mining operations at preparatory faces, Raspadskaya began to install systems that lock out tunnelling equipment when personnel are in hazardous areas, as well as underground video surveillance systems.

In addition, based on analysis of injuries reported, the Company is introducing new educational programmes and training on safety. 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 2017, the annual Young Workers conference was focused on degassing. To continue this work, the Company has created a Safety Club at which employees regularly discuss safety issues and propose innovative solutions.

To improve the qualifications of its employees, Raspadskaya conducts safety training programmes, including for mining dispatchers, first aid providers and surface electrical personnel. For the latter, the Company has established a special training centre with real equipment where electricians practice occupational safety measures using personal protective equipment.

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.

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 can 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 loss of customers and competitive advantages, as well as 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.

Information security and IT system availability

Risks related to IT systems and information security can also potentially affect production activities. Such risks have not yet had a significant impact on the Company’s operations. The operability of IT systems and access to data affected by the virus attack in mid-2017 were promptly restored. While this IT incident did not have a significant impact on the Company’s activities, the management continues to implement additional measures aimed at minimising such risks.

Other risks

Raspadskaya continues to monitor and evaluate risks and factors that are not critical in terms of potential business impact. These include, among others, potential logistical bottlenecks, which could influence access to export markets, availability of personnel with the required qualifications.

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, 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.

| | H1 2018 | H1 2017 | Change, % |
|---------------------------------|-----------------|-----------------|------------------|
| Average exchange rate, RUB/US\$ | 59.3536 | 57.9862 | 2 |
| | 30.06.18 | 31.12.17 | Change, % |
| Exchange rate, RUB/US\$ | 62.7565 | 57.6002 | 9 |

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.

Supply of and demand for coking coal

Raspadskaya's operating and financial results 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.

One important factors influencing the supply-demand balance are the increase in consumption and increase of prices on the global steel market, which have led to greater steel production in Russia. Meanwhile, domestic steel consumption remains flat year-on-year. Another important factor influencing the supply-demand balance is the reduction in demand for blast-furnace coke on both the domestic and global markets.

A factor on the supply side is the activities of competitors.

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

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 H1 2018, the Company supplied coking coal products to all main Russian customers under long-term contracts. Internal prices are primarily set monthly 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 H1 2018, 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 2018 | H1 2017 | Change, % |
|----------------|----------------|----------------|------------------|
| | <i>US\$/t</i> | | |
| Russia | 132.1 | 139.8 | (6) |
| Europe | 113.1 | 95.3 | 19 |
| Asia-Pacific | 99.6 | 79.7 | 25 |
| Average | 111.0 | 102.1 | 9 |

In H1 2018, 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 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.

Management of the assets of Yuzhkuzbassugol and Mezhegeyugol

In H1 2018, as part of its authority as a trading agent, RUK re-sold 4.5 million tonnes of coal products from Yuzhkuzbassugol/ Mezhegeyugol for a total of US\$584 million, with cost of sales of US\$572 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US\$12 million, as included in “Rendering of services” in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US\$18 million in Trade and other receivables, US\$376 million in Receivables from related parties and US\$610 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:

| <i>(US\$ million)</i> | H1 2018 | H1 2017 |
|-----------------------|----------------|----------------|
| Revenues | | |
| Rendering of services | 12 | 9 |

Statement of Financial Position:

| <i>(US\$ million)</i> | 30.06.2018 | 31.12.2017 |
|--|-------------------|-------------------|
| Current assets | | |
| Trade and other receivables | 18 | 17 |
| Receivables from related parties | 376 | 185 |
| Short-term liabilities | | |
| Payables to related parties | 610 | 368 |
| | | |
| Net payables to Yuzhkuzbassugol/Mezhegeyugol from agent sales | 216 | 166 |

Sales volumes

The table below details Raspadskaya’s coal concentrate sales volumes.

| | H1 2016 | H2 2016 | H1 2017 | H2 2017 | H1 2018 |
|---------------|----------------|----------------|----------------|----------------|----------------|
| | ‘000 t | ‘000 t | ‘000 t | ‘000 t | ‘000 t |
| Russia | 1,220 | 1,350 | 1,093 | 1,010 | 962 |
| Europe | 291 | 146 | 419 | 590 | 593 |
| Asia-Pacific | 1,605 | 1,585 | 1,717 | 1,795 | 1,895 |
| Export, total | 1,896 | 1,731 | 2,137 | 2,385 | 2,488 |
| Total | 3,116 | 3,080 | 3,230 | 3,395 | 3,450 |

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

| | H1 2018 | | H1 2017 | | Change '000 t | Change, % |
|----------------------------------|---------------|-------------|---------------|-------------|------------------|-------------|
| | Vol '000 t | Share | Vol '000 t | Share | | |
| Coal concentrate – Russia | 962 | 28% | 1,093 | 34% | (131) | (12) |
| Incl. EVRAZ | 191 | 6% | 324 | 10% | (133) | (41) |
| Coal concentrate – export | | | | | | |
| <i>Europe</i> | 593 | 17% | 419 | 13% | 174 | 42 |
| Incl. EVRAZ | 391 | 11% | 231 | 7% | 160 | 69 |
| <i>Asia-Pacific</i> | 1,895 | 55% | 1,717 | 53% | 178 | 10 |
| | 2,488 | 72% | 2,137 | 66% | 351 | 16 |
| Coal concentrate – total | 3,450 | 100% | 3,230 | 100% | 220 | 7 |
| <i>Raw coal – Russia</i> | 933 | 100% | 364 | 100% | 569 | |
| Incl. EVRAZ | 716 | 77% | 308 | 85% | 408 | |
| Concentrate and raw coal | 4,382 | | 3,594 | | 788 | 22 |

In H1 2018, overall coal product sales volumes climbed by 22% year-on-year mainly through the use of stockpiles and amounted to 4.4 million tonnes.

The share of coal products sold to EVRAZ steel mills stood at 30% of total coal product sales. The volume sold to EVRAZ steel mills rose to 1.3 million tonnes in H1 2018, up from 0.9 million tonnes in H1 2017, largely due to higher sales of the GZh and OS coal grades.

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

In H1 2018, the Company increased the share of exports in overall concentrate sales to 72%, or 2.5 million tonnes, of which 76% went to the Asia-Pacific and 24% to Europe. Shipments to Europe rose from 13% of total concentrate sales volumes in H1 2017 to 17% in the reporting period as relationships with existing clients continued to develop. The increase in sales to Europe was primarily focused on Slovakia, Poland, the Czech Republic and Hungary.

Domestic coal concentrate sales fell by 12% year-on-year to 1.0 million tonnes due to production maintenance at our customers' facilities, greater competition on the Russian market.

Overall raw coal sales volumes surged to 933 thousand tonnes, an increase of 569 thousand tonnes year-on-year. During the reporting period, part of raw coal was washed on the EVRAZ' washing plants (Yuzhkuzbassugoldue to lack of washing capacity).

In 2018, Raspadskaya will remain focused 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.

| | H1 2018 | | H1 2017 | | Change | Change, % |
|---|---------------------|-------------|------------|-------------|------------|-----------|
| | Amount | Share | Amount | Share | | |
| | <i>US\$ million</i> | | | | | |
| Coal concentrate – Russia | 127 | 29% | 153 | 44% | (26) | (17) |
| Coal concentrate – export | 256 | 58% | 177 | 51% | 79 | 45 |
| | 383 | 87% | 330 | 95% | 53 | 16 |
| Raw coal – Russia ⁽¹⁾ | 59 | 13% | 17 | 2% | 42 | n/a |
| | 442 | 100% | 347 | 100% | 95 | 27 |
| Transport costs in sales price ⁽²⁾ | 15 | | 6 | | 9 | n/a |
| Sales of other goods | 59 | | 63 | | (4) | (6) |
| Rendering of services | 26 | | 23 | | 3 | 13 |
| Revenues | 542 | | 439 | | 103 | 23 |

(1) Excluding sales of associated coal of 43.2 thousand tonnes in H1 2018 and 34.8 thousand tonnes in H1 2017

(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

In H1 2018, revenues from sales of coal products, rebased to common delivery terms (FCA Mezhdurechensk), grew by US\$95 million, up 27% year-on-year, due to an increase in the average FCA price of 9% and a rise in sales of 22%.

The transport component in the sales price grew due to an increase in shipment volumes to Ukraine on DAP terms and a significant hike in railway tariffs in mid-2017.

In H1 2018, sales of other goods fell year-on-year due to a reduction in revenues from third-party coal resales (price and volume factors). Revenues from the sale of materials and equipment to Yuzhkuzbassugol rose during the period amid higher prices and consumption volumes.

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. Also included is the commission for RUK from resales of coal from Yuzhkuzbassugol, the increase in which was driven by the rise in coal product prices.

Given the increase in revenues from coal products (FCA) and revenues from services rendered, overall revenues climbed by 23% year-on-year in the period.

Production volumes

Raspadskaya's production volumes depend on capacity and demand.

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

| | H1 2018 | H1 2017 | Change | Change, % |
|-----------------------------|---------------|---------|--------|-----------|
| | <i>'000 t</i> | | | |
| Raw coal extraction | 5,438 | 5,957 | (519) | (9) |
| Raw coal preparation | 5,338 | 4,983 | 355 | 7 |
| Coal concentrate production | 3,515 | 3,239 | 275 | 8 |
| Concentrate yield | 65.9% | 65.0% | | |

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

| | H1 2018 | H1 2017 | Change | Change, % |
|--|----------------|----------------|---------------|------------------|
| | | <i>'000 t</i> | | |
| Raspadskaya (GZh) | 2,780 | 3,552 | (772) | (22) |
| Razrez Rapsdsky (GZh/GzhO) | 1,615 | 2,067 | (452) | (22) |
| Raspadskaya-Koksovaya (K, KO) | 219 | 287 | (68) | (24) |
| Raspadskaya-Koksovaya, open-pit (OS, KS) | 824 | 52 | 772 | n/a |
| Total | 5,438 | 5,957 | (519) | (9) |

In H1 2018, Raspadskaya's total volume of raw coal mined dropped by 9% year-on-year to 5.4 million tonnes. In accordance with the production plan, raw coal mining at the Raspadskaya mine was transferred from three to two longwalls during the reporting period. The main reasons for the volumes decrease were operational difficulties and the temporary stoppage of production at the Raspadskaya mine in May 2018.

In H2 2018, mining will begin on a new longwall at the Raspadskaya mine's horizon no. 10, which will return operations to three longwalls and improve raw coal production volumes. Output fell at Razrez Rapsdsky after some of its equipment was transferred to the open-pit site at the Raspadskaya-Koksovaya mine.

Despite the reduction in output, coal processing volumes at the Raspadskaya coal-washing plant increased year-on-year mainly during the reporting period due to the processing of stockpiled material. Concentrate yield grew following a decrease in the ash content of the GZh-grade coal mined at the Razrez Rapsdsky, as well as an increase in the share of OS-grade coal in the product mix (with an average yield of more than 70%).

Mining of the premium K-grade coal at the Raspadskaya-Koksovaya mine's field no. 2 is being prepared for a switch from the room-and-pillar method to longwall mining from Q3 2018.

Development of the valuable OS-grade coal at the site of the Raspadskaya-Koksovaya mine continues with both the Company's own capacity and subcontractors. Increasing production of OS-grade coal is a strategic priority aimed at improving the product portfolio.

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

| | H1 2018 | H1 2017 | Change | Change, % |
|---|----------------|----------------|---------------|------------------|
| | | <i>US\$</i> | | |
| Cash cost per tonne of concentrate ⁽¹⁾ | 38 | 31 | 7 | 23 |

(1) From the management accounts

The cash cost per tonne of concentrate increased by 23% year-on-year in H1 2018 (up US\$7 per tonne), primarily due to lower production at the Raspadskaya mine and increase in the price of input resources, which was partly offset by a rouble depreciation in the reporting period.

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

| | H1 2018 | | H1 2017 | | Change | Change, % |
|--|---------------------|--------------|----------------|--------------|---------------|------------------|
| | Amount | Share | Amount | Share | | |
| | <i>US\$ million</i> | | | | | |
| Payroll and payroll taxes | 45 | 27% | 45 | 31% | - | - |
| Taxes | 7 | 4% | 9 | 6% | (2) | (22) |
| Materials | 51 | 31% | 33 | 23% | 18 | 55 |
| Electricity | 9 | 5% | 8 | 6% | 1 | 13 |
| Other costs | 27 | 16% | 22 | 15% | 5 | 23 |
| Cash cost of production | 139 | 84% | 117 | 82% | 21 | 19 |
| Depreciation | 20 | 12% | 18 | 13% | 2 | 11 |
| Depletion of mining assets | 7 | 4% | 8 | 6% | (1) | (13) |
| Cost of production | 166 | 100% | 143 | 100% | 23 | 16 |
| Transport expenses | 15 | | 9 | | 6 | 67 |
| Cost of goods resold | 51 | | 57 | | (6) | (11) |
| Changes in work in progress and finished goods | 4 | | (11) | | 15 | n/a |
| Cost of sales | 236 | | 198 | | 38 | 19 |

Payroll and payroll tax

Payroll and payroll taxes are one of the largest items in the Company's cash cost of production: 27% in H1 2018 and 31% in H1 2017.

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

| | H1 2018 | H1 2017 | Change | Change, % |
|---|---------------------|----------------|---------------|------------------|
| | <i>US\$ million</i> | | | |
| Payroll in the cost of production | 45 | 45 | - | - |
| Payroll in general and administrative costs | 8 | 7 | 1 | 14 |
| Payroll in other operating expenses | - | 1 | (1) | n/a |
| Total payroll | 53 | 53 | - | - |
| Average headcount | 5,501 | 5,569 | (68) | (1) |

The average headcount edged down by 1% year-on-year in H1 2018. Excluding exchange-rate movements, payroll in the cost of production remained unchanged year-on-year, while in general and administrative costs climbed by 14% due to the indexation of salaries and filling of vacant positions and payroll in other operating expenses fell due to a reduction in expenses related to mothballed production.

Taxes

The main tax included in production costs is the mineral extraction tax (MET). In the reporting period, tax payments fell year-on-year due to a 9% decrease in raw coal output. Other taxes were down year-on-year due to a high-base effect following the creation of reserves for property tax in H1 2017 (Raspadskaya-Koksovaya mine).

Materials and electricity

Material costs climbed by 55% year-on-year in H1 2018. Excluding exchange-rate movements, material costs rose by 61%, half of which was due to higher volumes and prices for purchased coal used to produce blended concentrate, while the remaining growth came from increased material costs amid rising prices and higher consumption volumes.

Excluding exchange-rate movements, spending on electricity rose by 13% year-on-year, due to greater coal preparation volumes, as well as tariff hikes averaging 7.2%.

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 H1 2018 and 19% in H1 2017. Excluding exchange-rate movements, depreciation and depletion of assets in production costs rose by 4% year-on-year. Depreciation rose largely due greater capital maintenance at Razrez Rapsadsky and the Rapsadskaya mine during 2017, while depletion of mining assets fell following a decrease in depletion expense amid a decrease in expected future capital investments at the Rapsadskaya mine.

Transport costs

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

In H1 2018, transport costs rose due to hikes in tariffs on third-party road freight services, as well as expenses associated with the higher production of the premium OS-grade coal at the site of open-pit operations at the Rapsadskaya-Koksovaya mine .

Cost of goods for resale

In H1 2018, the cost of goods for resale dropped year-on-year due to a reduction in revenues from the resale of coal purchased from third parties (volume factor). Revenues from the sale of materials and equipment to Yuzhkuzbassugol rose during the period amid higher prices and production volumes.

Changes in the of work in progress and finished goods

Changes in the work in progress and finished goods during the reporting period were caused by a reduction in stockpiles of GZh-grade raw coal at Razrez Rapsadsky.

Other expenses

Other expenses consist mainly of spending on industrial services. In H1 2018, they climbed by 23% year-on-year excluding exchange-rate movements. This was due to higher production of the premium OS-grade coal at the site of the Rapsadskaya-Koksovaya mine. In addition, there was an increase spending on degasification due to work at the Rapsadskaya mine on the more gas-bearing formation 6-6a and development of mining works at formation 7-7a.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist mainly of railway costs and freight-forwarding support (freight) that Rapsadskaya incurs after the right of ownership is transferred to buyers under CPT and DAP terms. They are included in revenues from sales of coal products and totalled US\$15 million in H1 2018 and US\$6 million in H1 2017.

In addition to higher railway tariffs, selling and distribution costs fell by US\$10 million year-on-year in the period as there were no new provisions for doubtful accounts receivable.

General and administrative expenses

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

| | H1 2018 | | H1 2017 | | Change | Change, % |
|---------------------------|---------------------|-------------|-----------|-------------|----------|-----------|
| | Amount | Share | Amount | Share | | |
| | <i>US\$ million</i> | | | | | |
| Payroll and payroll taxes | 8 | 67% | 7 | 58% | 1 | 14 |
| Other expenses | 4 | 33% | 5 | 42% | (1) | (20) |
| | 12 | 100% | 12 | 100% | - | - |

In H1 2018, the Company's general and administrative expenses were largely unchanged in year-on-year terms.

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 H1 2018, Raspadskaya recognised a foreign-exchange gain of US\$9 million following the revaluation of cash held in foreign-currency accounts and accounts receivable due to the appreciation of the US dollar during the reporting period.

Other operating income and expenses

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

Interest expense

In H1 2018, interest expense totalled US\$2 million on loans from EVRAZ group entities.

Profit tax

In H1 2018, profit tax represented the sum of US\$48 million in tax accrued and US\$11 million from a change in deferred income tax assets and liabilities. The main part of the change in the deferred income tax assets and liabilities consisted of tax losses from previous years being applied to reduce current taxable profit.

EBITDA

The table below gives the Company's EBITDA.

| | H1 2018 | H1 2017 | Change | Change, % |
|---|---------------------|------------|-----------|-----------|
| | <i>US\$ million</i> | | | |
| Profit for the period | 225 | 168 | 57 | 34 |
| <i>Adjusted for</i> | | | | |
| Foreign-exchange differences | (9) | (15) | 6 | (40) |
| Interest income | - | (1) | 1 | n/a |
| Interest expense | 2 | 15 | (13) | (87) |
| Gain from disposal of property, plant and equipment | (1) | - | (1) | n/a |
| Impairment of assets | - | (1) | 1 | n/a |
| Profit tax | 59 | 43 | 16 | 37 |
| EBIT | 276 | 209 | 67 | 32 |
| <i>Adjusted for</i> | | | | |
| Amortisation and depletion of mineral reserves | 27 | 26 | 1 | 4 |
| EBITDA | 303 | 235 | 68 | 29 |
| <i>EBITDA margin</i> | 55.9% | 53.5% | | |

In H1 2018, the main factor influencing EBITDA growth was the rise in revenues, driven by higher coking coal prices both internationally and in Russia, as well as greater coal product sales.

Debt

The table below details the Company's debt.

| | 30.06.18 | 31.12.17 | Change | Change, % |
|---|---------------------|-----------------|---------------|------------------|
| | <i>US\$ million</i> | | | |
| Short-term loans, including current part of long-term loans | - | 38 | (38) | n/a |
| Debt | - | 38 | (38) | n/a |
| <i>Less:</i> | | | | |
| Cash and cash equivalents | (155) | (45) | (110) | n/a |
| Net debt | (155) | (7) | (148) | n/a |

Liquidity

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

The table below gives Raspadskaya's cash flow statement.

| | 30.06.2018 | 30.06.2017 | Change | Change, % |
|---|---------------------|-------------------|---------------|------------------|
| | <i>US\$ million</i> | | | |
| Cash and cash equivalents at beginning of period | 45 | 35 | 10 | 29 |
| Cash from operating activities | 166 | 201 | (35) | (17) |
| Purchases of property, plant and equipment | (26) | (39) | 13 | (33) |
| Sales of property, plant and equipment | 1 | 3 | (2) | (67) |
| Loans issued to related parties | - | (10) | 10 | n/a |
| Repayment of loans by related parties | - | 87 | (87) | n/a |
| Proceeds from loans from related parties | - | 335 | (335) | n/a |
| Repayment of loans from related parties, including interest | (37) | (150) | 113 | (75) |
| Repayment of loans, including interest | - | (416) | 416 | n/a |
| Other investment activities, net | - | 1 | (1) | n/a |
| Effect of foreign-exchange rates on cash and cash equivalents | 6 | 2 | 4 | n/a |
| Cash and cash equivalents at end of period | 155 | 49 | 106 | 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.

| | 30.06.18 | 31.12.17 | Change | Change, % |
|------------------------|---------------------|-----------------|---------------|------------------|
| | <i>US\$ million</i> | | | |
| Inventories | 47 | 49 | (2) | (4) |
| Accounts receivable | 738 | 427 | 311 | 73 |
| Prepayments | 9 | 8 | 1 | 13 |
| Tax recoverable | 79 | 62 | 17 | 27 |
| <i>Less:</i> | | | | |
| Payables | (757) | (513) | (244) | 48 |
| Tax payable | (47) | (42) | (5) | 12 |
| Advances | (1) | - | (1) | n/a |
| Working capital | 68 | (9) | 77 | n/a |

Capital expenditure

The table below summarises Raspadskaya's capital expenditure.

| | H1 2018 | H1 2017 | | |
|--|----------------|----------------|---------------|------------------|
| | Amount | Amount | Change | Change, % |
| Financing of investments, US\$ million | 26 | 39 | (13) | (33) |
| Financing of investments per tonne of raw coal mined, US\$ million | 4.8 | 6.5 | (1.8) | (27) |

In H1 2018, financing for capital investments fell by 33% year-on-year, or by 31% excluding exchange-rate movements. This was due to the lower rate of equipment replacement at Razrez Rospadsky compared with H1 2017, as well as the significant reduction during the period of equipment acquisition at Raspadskaya's preparation plant.

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 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 fees.