Raspadskaya Announces IFRS Results for H1 2019

Moscow, 28 August 2019 – PAO Raspadskaya (MOEX: RASP) (further "Raspadskaya" or "the Company") today announces its consolidated results for H1 2019 in accordance with International Financial Reporting Standards (IFRS).

Financial performance	**H1 2019**	**H1 2018**	**Change**	**Change, %**
	US$ million			
Revenue	569	542	27	5
Cost of sales	(256)	(236)	(20)	8
Gross profit	**313**	**306**	**7**	**2**
Gross profit margin	*55%*	*56%*		
Selling and distribution costs	(18)	(14)	(4)	29
General and administrative expenses	(18)	(12)	(6)	50
Social expenses	(1)	-	(1)	n/a
Gain on disposal of property, plant and equipment	-	1	(1)	(100)
Impairment of assets	(3)	-	(3)	n/a
Foreign exchange gain/(loss)	(14)	9	(23)	n/a
Other operating expenses	(5)	(4)	(1)	25
Operating profit	**254**	**286**	**(32)**	**(11)**
Interest income	13	-	13	n/a
Interest expense	(1)	(2)	1	(50)
Profit before income tax	**266**	**284**	**(18)**	(6)
Income tax	(55)	(59)	4	(7)
Profit for the period	**211**	**225**	(14)	(6)
Earnings per share, *cents*	**30.1**	**32.0**		
EBIT	**272**	**276**	**(4)**	(1)
EBITDA	**297**	**303**	**(6)**	(2)
EBITDA margin	*52.2%*	*55.9%*		
Capital expenditure (CAPEX)	**37**	**26**	11	42
	30/06/19	**31/12/18**		
Debt	-	-	-	n/a
Cash and cash equivalents	**199**	**67**	132	n/a

HIGHLIGHTS

- In H1 2019, revenues totalled US$569 million, up 5% year-on-year
- EBITDA equalled US$297 million, down slightly from the US$303 million in H1 2018
- EBITDA margin declined to 52.2%, compared with 55.9% in H1 2018
- Net operating cash flow amounted to US$269 million, compared with US$166 million in H1 2018
- Net profit was US$211 million, compared with US$225 million in H1 2018

- On 27 August 2019, the Board of Directors decided to recommend a dividend for H1 2019 of RUB2.5 per share
- Overall coal production (all grades) totalled 7.1 million tonnes, compared with 5.4 million tonnes in H1 2018
- The cash cost of coal concentrate stood at US$31 per tonne, down 18% year-on-year
- The actual average selling price of semi-hard coking coal concentrate, rebased to common delivery terms (FCA Mezhdurechensk), amounted to US$100.8 across all regional markets, including US$130.4 on the domestic market, US$73.7 in Europe and US$95.8 in the Asia-Pacific region
- CAPEX was US$37 million, compared with US$26 million in H1 2018
- As of 30 June 2019, the Company had cash and cash equivalents of US$199 million and no debt

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

"I would like to highlight the operational successes of the Company during the first half of 2019. Production at all of the Company's enterprises reached 7.1 million tonnes of raw coal (+31% year-on-year). The increase was primarily due to the planned transition of the Raspadskaya mine to coal extraction with three longwalls, the operation of the Raspadsky open-pit mine at high capacity in the first quarter of 2019, as well as the development of the open-pit mining site at the Raspadskaya-Koksovaya mine. An important contribution was also made by the launch of a longwall at the underground site at the Raspadskaya-Koksovaya mine.

Thanks to operational successes, and despite the fall in the average selling price in the first half of 2019, we were able to achieve good financial results. We completed the reporting period with EBITDA at US$297 million (US$303 million in H1 2018) and the EBITDA margin at the level of 52.2%. In addition, we delivered net profit of US$211 million (US$225 in H1 2018).

In the field of safety, the fall of the shift vehicle, which killed eight of our employees was a tragic event for the Company. Raspadskaya took a number of actions to prevent the risks associated with people transportation. In particular, new shift vehicles with a rigid frame were purchased, car DVRs were installed, the staff of engineers and technicians at the Razrez Raspadsky open-pit was increased to ensure control of the people delivery and the system for issuing task orders was improved.

Following the meeting on 21 March 2019, the Board of Directors approved the new dividend guidance as follows:

- Minimum amount of US$50 million per annum to be paid in semi-annual instalments of minimum US$25 million each following interim and full year results.
- Based upon the financial performance of the business, the Raspadskaya Board of Directors may consider a higher distribution level, considering the outlook for our major markets, the Board's view of the long-term growth prospects of the business and future capital investment requirements.
- No dividends will be paid out if the ratio of Net Debt to EBITDA is above 2.0x.

On 25 April 2019 the Board of Directors approved the share buyback by an open market purchase of up to 20,412,828 shares, at the purchase price of RUB141 per share. On 3 July 2019, the share buyback was completed.

Taking into account the principles enumerated above, as well as the good financial results of the Company, at the meeting on 27 August 2019, the Board of Directors recommended that the General Meeting of Shareholders approve a dividend for the first half of 2019 in the amount of RUB2.5 per share or a total of RUB1.7 billion (around US$25.9 million)."

Management discussion and analysis of financial standing and operational results for H1 2019

This discussion and analysis should be read in conjunction with the interim condensed consolidated financial statements of Raspadskaya for H1 2019, prepared in accordance with IAS 34 Interim Financial Reporting.

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

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

Contents

Mineral reserves and resources

Raspadskaya has reserves of 1.3 billion tonnes of high-quality semi-hard coking coal of the Zh, 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 2018.

Mine	**Proved and probable** *mln t*
Raspadskaya	919
Raspadskaya-Koksovaya (includes Raspadskaya-Koksovaya open-pit operations)	211
MUK-96	113
Razrez Raspadsky	105
Total	**1 347**

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

In H1 2019, the Company extracted 7.1 million tonnes of coking coal.

Key factors and risks affecting Raspadskaya's business activities

Global economic factors, industry conditions and cost effectiveness

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

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

Health, safety and environmental (HSE) issues

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

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 a system of automatic remote opening. 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 the attention of the employee on five essential rules defining his 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 2020.

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.

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 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

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. Despite this, 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. 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, revenues and expenses are denominated mostly in rubles, while the presentational currency in the financial statements is the US dollar.

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

	H1 2019	**H1 2018**	**Change, %**
Average exchange rate, RUB/US$	65.3384	59.3536	10
	30.06.19	**31.12.18**	**Change, %**
Exchange rate, RUB/US$	63.0756	69.4706	(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.

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 influencing the supply-demand balance are increased production and the downward price trend on the global steel market in H1 2019. Another important factor affecting 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 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 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 Russian rubles for domestic sales and US dollars for export sales.

In H1 2019, 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 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 prices of the Company's coal concentrate rebased to common delivery terms (FCA Mezhdurechensk).

	H1 2019	**H1 2018**	**Change, %**
	US$/t		
Russia	130.4	132.1	(1)
Europe	73.7	113.1	(35)
Asia-Pacific	95.8	99.6	(4)
Average	**100.8**	**111.0**	**(9)**

In H1 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 H1 2019, as part of its authority as a trading agent, RUK re-sold 4 million tonnes of coal products from Yuzhkuzbassugol/Mezhegeyugol for a total of US$429 million, with cost of sales of US$421 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US$8 million, as included in "Rendering of services" in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US$15 million in Trade and other receivables, US$131 million in Receivables from related parties and US$360 million in Payables to related parties.

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

Statement of Comprehensive Income

(US$ million)	**H1 2019**	**H1 2018**
Revenues		
Rendering of services	8	12

Statement of Financial Position

(US$ million)	**30.06.2019**	**31.12.2018**
Current assets		
Trade and other receivables	15	13
Receivables from related parties	131	141
Short-term liabilities		
Payables to related parties	360	326
Net payables to Yuzhkuzbassugol / Mezhegeyugol from agent sales	**(214)**	**(172)**

Sales volumes

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

	H1 2019		H1 2018			
	Vol	Share	Vol	Share	Change	Change, %
	'000 t		*'000 t*		*'000 t*	
Coal concentrate – Russia	**1,036**	***26%***	**962**	***28%***	**74**	**8**
Incl. EVRAZ	700	*17%*	191	*6%*	509	n/a
Coal concentrate – export	**3,010**	***74%***	**2,488**	***72%***	**522**	**21**
Europe	703	*17%*	593	*17%*	110	18
Incl. EVRAZ	-	-	391	*11%*	(391)	(100)
Asia-Pacific	2,307	*57%*	1,895	*55%*	412	22
Coal concentrate – total	**4,046**	***100%***	**3,450**	***100%***	**596**	**17**
Raw coal – Russia	1,168	*95%*	933	*100%*	235	25
Incl. EVRAZ	1,154	*93%*	716	*77%*	438	61
Raw coal – Europe	72	*5%*	-	-	72	n/a
Concentrate and raw coal	**5,286**		**4,382**		**904**	**21**

In H1 2018, overall coal product sales rose by 21% year-on-year to 5.3 million tonnes.

The share of coal products sold to EVRAZ steel mills stood at 35% of total coal production, while sales volumes to EVRAZ plants rose to 1.9 million tonnes in H1 2019, compared to 1.3 million tonnes in H1 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 reached 74% or 3.0 million tonnes, of which 77% went to the Asia Pacific and 23% to Europe. Shipments to Europe amounted to 17% of total concentrate sales in H1 2019, the same level as in H1 2018. The Company continues to develop its client base and foster relationships with existing clients.

Domestic coal concentrate sales increased by 8% year-on-year in H1 2019 to 1.0 million tonnes, due to the expansion of the product portfolio.

Overall raw coal sales totalled 1.2 million tonnes (up 0.3 million tonnes year-on-year). During the reporting period, due to a lack of capacity at the Company's washing plants, some raw coal was sold to EVRAZ plants (Yuzhkuzbassugol)

During H1 2019, the Company remained focussed on the geographical diversification of sales, as well as maintaining the balance between long-term contracts and spot deliveries.

Revenues

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

	H1 2019		H1 2018			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Coal concentrate – Russia	135	*28%*	127	*29%*	8	6
Coal concentrate – export	274	*57%*	256	*58%*	18	7
	409	***85%***	**383**	***87%***	**26**	**7**
Raw coal – Russia(1)	74	*15%*	59	*13%*	15	25
	483	***100%***	**442**	***100%***	**41**	**9**
Transport costs in sales price (2)	15		15		-	-
Sales of other goods	48		59		(11)	(19)
Rendering of services	23		26		(3)	(12)
Revenues	**569**		**542**		**27**	**5**

(1) Excluding sales of associated coal of 60.2 thousand tonnes in H1 2019 and 43.2 thousand tonnes in H1 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 H1 2019, revenues from the sale of coal products, rebased to common delivery terms (FCA Mezhdurechensk) increased by US$41 million, up 9% year-on-year, due to growth in sales of coal products of 21%, while the price (FCA) declined by 9% year-on-year.

The transport component in the sales price remained at the same level as in H1 2018. Excluding exchange-rate factors, the transport component increased by 7% due to the increase in sales on conditions of CPT, as well as the increase in the railroad tariff at the rate of inflation.

During H1 2019, the sales of other goods was lower year-on-year, due to a reduction in revenues from the resale of coal purchased from third-party enterprises (volume factor).

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 decrease in which was driven by the decline in coal product prices.

Given the increase in revenues from coal products (FCA), a reduction in revenues from the sale of other goods and services, total revenues increased by 5% year-on-year in H1 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:

	H1 2019	H1 2018	Change	Change, %
		‘000 t		
Raw coal extraction	7,146	5,438	1,708	31%
Raw coal preparation	5,524	5,338	186	3%
Coal concentrate production	3,924	3,515	409	12%
Concentrate yield	71.0%	65.9%		

	H1 2019	H1 2018	Change	Change, %
		‘000 t		
Raspadskaya (GZh)	3,883	2,780	1,103	40
Razrez Raspadsky (GZh, GZhO)	2,181	1,615	566	35
Raspadskaya-Koksovaya (K, KO)	325	219	106	48
Raspadskaya-Koksovaya, open-pit (OS, KS)	758	824	(66)	(8)
Total	**7,146**	**5,438**	**1,708**	**31**

In H1 2019, the Company’s total of raw coal mined at all of its facilities amounted to 7.1 million tonnes (+31% year-on-year). The growth in output was primarily attributable to the stable operations at the Raspadskaya mine in three longwalls, compared to work in two longwalls in H1 2018. Razrez Raspadsky also saw growth (+35% year-on-year), as well as at Raspadskaya-Koksovaya mine (+48% year-on-year) due to the transition to the method of room and pillar mining in the extraction from longwalls, in addition to the recruitment of outside contractors.

Concentrate yield also grew and reached 71.0%, due to a reduction in the ash content of GZh mark coal extracted from Raspadskaya mine and Razrez Raspadsky and also by enhancing the operation process at washing plant as a part of operational improvements 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.

	H1 2019	H1 2018	Change	Change, %
		US$		
Cash cost per tonne of concentrate (1)	31	38	(7)	(18)

(1) From the management accounts

In H1 2019, the cash cost per tonne of concentrate fell by 18% (-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:

	H1 2019		H1 2018			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Payroll and payroll taxes	49	*27%*	45	*27%*	4	9
Taxes	10	*5%*	7	*4%*	3	43
Materials	60	*32%*	49	*30%*	11	22
Electricity	9	*5%*	9	*5%*	-	-
Other costs	34	*18%*	27	*16%*	7	26
Cash cost of production	**162**	***86%***	**137**	***84%***	**25**	**18**
Depreciation	19	*10%*	20	*12%*	(1)	(5)
Depletion of mining assets	7	*4%*	7	*4%*	-	-
Cost of production	**188**	***100%***	**164**	***100%***	**24**	**15**
Transport expenses	33		15		18	120
Cost of goods resold	46		51		(5)	(10)
Changes in work in progress and finished goods	(11)		6		(17)	n/a
Cost of sales	**256**		**236**		**20**	**8**

Payroll and payroll taxes

Payroll and payroll taxes are one of the largest items in the Company's cost of production: 27% in H1 2019 and the same level in H1 2018.

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

	H1 2019	H1 2018	Change	Change, %
	US$ million			
Payroll in the cost of production	49	45	4	9
Payroll in general and administrative costs	9	8	1	13
Total payroll	**58**	**53**	**5**	**9**
Average headcount	**6,032**	**5,501**	**531**	**10**

The average headcount grew (+10% year-on-year) in H1 2019. Payroll for production personnel increased by 9%. Excluding exchange-rate factors, payroll for production personnel rose by 20%, due to: the indexation of salaries; the increase in headcount by 9% 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; the creation of new positions as part of HSE projects. Payroll for administrative staff increased by 13%. Excluding exchange-rate factors, this rose by 38% and was due to: the indexation of salaries; the filling of 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 increased 31% year-on-year, due to the increase in the volume of raw coal.

Materials and electricity

In H1 2019, material costs increased 22% year-on-year. Excluding exchange-rate factors, material costs increased by 35%, due to an increase in the consumption and cost of purchased raw coal used in the production of blended concentrates, as well as growth in prices for auxiliary materials. In addition, in H1 2019, an additional reserve was created for depreciated KS grade coal and oxidised coal from open pits.

Excluding exchange-rate factors, spending on electricity increased 11% year-on-year. This was primarily due to an average tariff hike of 9% 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: 14% in H1 2019 and 16% in H1 2018. Depreciation and depletion of assets in H1 2019, excluding exchange-rate factors, increased 7% year-on-year. This increase was due to the installation in 2018 of cleaning, tunnelling and other mining equipment at 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 H1 2019, transport expenses increased due to a hike in tariffs on third-party road freight tariffs; an increase in production at Razrez-Raspadsky; an increase in the transportation distance of overburden owing to the development of open-pit operations at Raspadskaya-Koksovaya mine; and increase in the storage of concentrate at Raspadskaya plant.

Cost of goods resold

In H1 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 H1 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 increased by 37% year-on-year in H1 2019. This growth was due to the development of the open-pit site at the Raspadskaya-Koksovaya mine, outsourcing subcontractors owing to higher production at Razrez Raspadsky, the increased cost of services of subcontractors.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist mainly of railway costs that Raspadskaya incurs after under CPT and DAP terms. They are included in revenues from sales of coal products and totalled US$15 million in H1 2019, the same level as H1 2018. Excluding exchange-rate factors, selling and distribution costs increased in H1 2019 due to an increase in sales under CPT terms, as well as due to an increase in the railway tariff by inflation. In addition, the level of expenses under the item in H1 2019 exceeds the expenses of the same period last year amid reversal of reserve for doubtful accounts receivable which took place in H1 2018 in the amount of US$1.5 million.

General and administrative expenses

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

	H1 2019		H1 2018			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Payroll and payroll taxes	9	*56%*	8	*57%*	1	13
Taxes	1	*6%*	-	*4%*	1	n/a
Other expenses	8	44%	4	30%	4	100
	18	**100%**	**12**	**100%**	**6**	**50**

In H1 2019, general and administrative expenses increased by 50% year-on-year. Excluding exchange-rate factors, general and administrative expenses increased by 58% year-on-year. This increase was due to: the increase in total salaries due indexation of salaries; 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

In H1 2019, Raspadskaya impaired RUK emergency reserves (other non-current assets) for the amount of US$1 million; certain property, plant and equipment for the amount of US$1 million belonging to Raspadskaya-Koksovaya mine due to changes in mining technology (transition to longwall from room and pillar mining operations); and items belonging to Razrez Raspadsky and Raspadskaya mine for the amount of US$1 million due to an absence of plans for their further use.

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 H1 2019, a foreign-exchange rate loss of US$14 million was 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

In H1 2019, interest expense totalled US$1 million, including the increase attributable to the passage of time on the land reclamation reserve, as well as interest expenses on pension obligations.

Income tax

In H1 2019, income tax amounted to US$55 million and consisted of US$43 million in accrued tax and changes in deferred income tax and liabilities totalling US$12 million, including the write-off of the deferred tax asset in the amount of US$1 million, in respect of the amounts for which tax was charged in past periods (reflected as adjustment of income tax of previous years).

EBITDA

The table below gives the Company's EBITDA:

	H1 2019	H1 2018	Change	Change, %
	US$ million			
Profit for the period	**211**	**225**	**(14)**	**(6)**
Adjusted for:				
Social expenses	1	-	1	n/a
Foreign-exchange gain/(loss)	14	(9)	23	n/a
Interest income	(13)	-	(13)	n/a
Interest expense	1	2	(1)	(50)
Gain from disposal of property, plant and equipment	-	(1)	1	(100)
Impairment of assets	3	-	3	n/a
Income tax	55	59	(4)	(7)
EBIT	**272**	**276**	**(4)**	**(1)**
Adjusted for:				
Amortisation and depletion of mineral reserves	25	27	(2)	(7)
EBITDA	**297**	**303**	**(6)**	**(2)**
EBITDA margin	52.2%	55.9%		

Liquidity

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

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

	30.06.2019	30.06.2018	Change	Change, %
	US$ million			
Cash and cash equivalents at beginning of period	**67**	**45**	**22**	**49**
Cash from operating activities	269	166	103	62
Purchases of property, plant and equipment	(37)	(26)	(11)	42
Sales of property, plant and equipment	2	1	1	100
Loans issued to related parties	(97)	-	(97)	100
Repayment of loans by related parties	33	-	33	100
Repayment of loans from related parties, including interest	-	(37)	37	н.п.
Share buyback	(46)	-	(46)	н.п.
Effect of foreign-exchange rates on cash and cash equivalents	8	6	2	33
Cash and cash equivalents at end of period	**199**	**155**	**44**	**22**

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:

	30.06.19	31.12.18	Change	Change, %
	US$ million			
Inventories	90	69	21	30
Accounts receivable (including Receivables from related parties)	488	498	(10)	(2)
Prepayments	22	11	11	100
Taxes recoverable	83	66	17	26
Less:				
Payables receivable (including Payables to related parties)	(529)	(477)	(52)	11
Taxes payable	(46)	(63)	17	(27)
Contract liabilities	(1)	-	(1)	n/a
Working capital	**107**	**104**	**3**	**3**

Capital expenditure

The table below summarises the Company's capital expenditure:

	H1 2019	H1 2018		
	Total	**Total**	**Change**	**Change, %**
Financing of investments, US$ million	37	26	11	42
Financing of investments per tonne of raw coal mined, US$	5.2	4.8	0.4	8

In H1 2019, financing for capital expenditures increased 42% year-on-year. Excluding exchange-rate factors, capital expenditures increased by 58% year-on-year. This growth was due to implementation of the equipment replacement program at Razrez Raspadsky during the reporting period; the acquisition of cleaning equipment for Raspadskaya mine to replace worn-out equipment; the acquisition of equipment for the Raspadskaya washing plant, as well as investment in the coal mining operations using longwall at 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.