Raspadskaya Announces IFRS Results for H1 2017

Moscow, 25 August 2017 – Raspadskaya (MOEX: RASP; "Raspadskaya" or "the Company") today announces its consolidated results for H1 2017 in accordance with International Financial Reporting Standards (IFRS).

Financial performance	**H1 2017**	**H1 2016**	**Chg**	**Chg, %**
	US$ million			
Revenues	439	193	246	127
Cost of sales	(198)	(133)	(65)	49
Gross profit	**241**	**60**	**181**	**n/a**
Gross profit margin	*55%*	*31%*		
Selling and distribution costs	(16)	(8)	(8)	100
General and administrative costs	(12)	(10)	(2)	20
Impairment of assets	1	(11)	12	n/a
Foreign-exchange gains	15	57	(42)	(74)
Other operating expenses	(4)	(7)	3	(43)
Operating profit	**225**	**81**	**144**	178
Interest income	1	-	1	n/a
Interest expenses	(15)	(19)	4	(21)
Profit before tax	**211**	**62**	**149**	n/a
Profit tax	(43)	(13)	(30)	n/a
Profit for the period	**168**	**49**	**119**	**n/a**
Profit per share, *cents*	**23.7**	**7.0**		
EBIT	**209**	**35**	**174**	**n/a**
EBITDA	**235**	**53**	**182**	**n/a**
EBITDA margin	*53.5%*	*27.5%*		
Capital expenditures (CAPEX)	**39**	**15**	24	160
	30/06/17	**31/12/16**		
Debt	**216**	**434**	**(218)**	**(50)**
Net debt	**167**	**399**	**(232)**	**(58)**

HIGHLIGHTS

- Revenues totalled US$439 million in H1 2017, up 127% year-on-year
- EBITDA reached US$235 million, an increase of US$182 million from H1 2016, EBITDA margin rose to 53.5%, compared with 27.5% in the period last year
- Net operating cash flow was US$201 million, compared with US$21 million in H1 2016
- The Company generated net profit of US$168 million in the reporting period, compared with US$49 million in H1 2016
- Overall coal production (all grades) totalled 6 million tonnes, compared with 4.9 million tonnes in H1 2016
- The cash cost of 1 tonne of coal concentrate rose by 24% year-on-year to US$31 per tonne
- The actual average selling price of semi-hard coking coal concentrate, rebased to common delivery terms (FCA Mezhdurechensk), amounted to US$102.1 in all regional markets, including US$139.8 in the domestic market, US$95.3 in Europe and US$79.7 in the Asia-Pacific region
- CAPEX totalled US$39 million in the reporting period, compared with US$15 million in H1 2016

- As of 30 June 2017, the Company's net debt amounted to US$167 million. Total debt consists of intragroup loans from EVRAZ amounting to US$216 million.

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

"The Company delivered strong results in the first half of 2017, as prices for our products surged in line with international benchmarks and the team worked together safely, stably and solidly.

In the reporting period, we raised production to 6 million tonnes, up 22% year-on-year. The Raspadskaya mine performed particularly well, boosting output to 3.6 million tonnes, up 37% year-on-year, by reducing time needed for longwall move and optimising downtime during mining. In addition, in the second quarter of 2017, Raspadskaya-Koksovaya has begun extracting OS-grade coal, which is in high demand, enhancing the product portfolio.

Driven by this, EBITDA reached US$235 million in the first half of 2017, compared with US$53 million in the same period last year, and the EBITDA margin climbed to 53.5%. In addition, net income totalled US$168 million, up from US$49 million a year before.

During the reporting period, we repaid US$400 million in Eurobonds, decreasing our debt substantially. As of 30 June 2017, net debt stood at US$167 million and the ratio of it to LTM EBITDA at 0.4x.

In the first half of 2017, we continued to reduce incidents in the workplace. The number of registered accidents totalled 24, down from 30 in same period last year, while the lost-time injury frequency ratio reached 6.41, down from 7.41 in the first half of 2016. I am pleased to report that there were no fatalities. Safety remains our overriding priority."

Management discussion and analysis of financial standing and operational results for H1 2017

This discussion and analysis should be read in conjunction with the interim condensed consolidated financial statements of Raspadskaya for H1 2017, prepared in accordance with IFRS.

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.

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

Contents

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 t*
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 H1 2017, Raspadskaya mined 6.0 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 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, EVRAZ' 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 management at EVRAZ. Raspadskaya has adopted and successfully implemented five programmes to streamline the main technological safety processes at coal mines (air and gas monitoring, ventilation, spontaneous combustion prevention for coal and gas, and degasification). The Company continues to focus on standardising Critical Safety programmes, energy isolation programme, or 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 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. Since 2015, it has been holding an annual brainstorming event dedicated to safety for young workers. In 2015 and 2016, participants proposed and devised technical solutions for avoiding injuries in the workplace, as well as a range of promotional campaigns. Some of these suggestions have already been introduced at Raspadskaya enterprises. In 2017, as part of a conference, the plan is to focus on degasification. To continue this work, the Company has created a Safety Club at which employees discuss safety issues and propose innovative solutions.

In addition, since 2016, Raspadskaya has launched new safety training programmes 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 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.

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, 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.

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 Group 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 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.

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, IT security risks.They have not had a significant effect on the Company's activities and the management continues to introduce additional measures aimed at mitigating them.

Access to the export markets could be affected by the possible logistics constraints.

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.

	H1 2017	**H1 2016**	**Chg,%**
Average exchange rate, *RUB/US$*	57.9862	70.2583	*(17)*
	30.06.17	**31.12.16**	**Chg,%**
Exchange rate, *RUB/US$*	59.0855	60.6569	*(3)*

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 steel demand recovery in the automotive, construction and engineering industries. This supports the demand for coking coals which are used in the production of coke by the Russian coke producers.

A factor on the supply side is the activities of competitors. The launch of coking coal extraction at two new mines has brought greater competition on the Russian market.

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 H1 2017, the Company supplied coking coal products to all main Russian customers under long-term contracts. Internal prices are set monthly based on global trends.

In H1 2017, prices for export sales depended on international quarterly and spot benchmarks for hard and semi-soft coking coal using appropriate premiums or discounts.

In H1 2017, 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 2017	**H1 2016**	**Chg,%**
	US$/t		
Russia	139.8	57.8	142
Europe	95.3	50.8	88
Asia-Pacific	79.7	33.9	135
Average	102.1	44.8	128

In H1 2017, 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 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.

Management of the assets of Yuzhkuzbassugol

In H1 2017, as part of its authority as a trading agent, RUK re-sold 4.0 million tonnes of coal products from Yuzhkuzbassugol for a total of US$536 million, with cost of sales of US$527 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US$9 million, as included in "Rendering of services" in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US$16 million in Trade and other receivables, US$73 million in Receivables from related parties and US$230 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:

(US$ million)	**H1 2017**	**H1 2016**
Revenues		
Rendering of services	9	5

Statement of Financial Position:

(US$ million)	**30.06.2017**	**31.12.2016**
Current assets		
Trade and other receivables	16	28
Receivables from related parties	73	234
Short-term liabilities		
Payables to related parties	230	401
Net payables to Yuzhkuzbassugol from agent sales	**141**	**139**

Sales volumes

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

	H1 2016	**H2 2016**	**H1 2017**
	'000 t	*'000 t*	*'000 t*
Russia	1,220	1,350	1,093
Europe	287	146	419
Asia-Pacific	1,606	1,585	1,717
Export, total	1,893	1,731	2,137
Total	**3,113**	**3,080**	**3,230**

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

	H1 2017		**H1 2016**			
	Vol	**Share**	**Vol**	**Share**	**Chg**	**Chg, %**
	'000 t		*'000 t*		*'000 t*	
Coal concentrate – Russia	**1,093**	***34%***	***1,220***	***39%***	***(127)***	***(10)***
Incl. EVRAZ steel mills	324	*10%*	159	*5%*	165	*103*
Coal concentrate – export						
Europe	419	*13%*	287	*9%*	132	*46*
Incl. EVRAZ steel mills	231	*7%*	53	*2%*	179	*n/a*
Asia-Pacific	1,717	*53%*	1,606	*52%*	113	*7*
	2,137	***66%***	**1,893**	***61%***	**244**	***13***
Coal concentrate – total	**3,230**	***100%***	**3,113**	***100%***	**117**	***4***
Raw coal – Russia	364		127		236	*186*
Incl. EVRAZ steel mills	308	*85%*	65	*51%*	243	*n/a*
Concentrate and raw coal	**3,594**		**3,240**		**354**	***11***

In H1 2017, overall coal product sales volumes rose by 11% year-on-year to 3.6 million tonnes.

The share of coal products sold to EVRAZ steel mills stood at 26% of total coal product sales, compared with 9% in same period in 2016. The volume sold to EVRAZ steel mills rose to 0.9 million tonnes, up from 0.3 million tonnes in H1 2016, largely as a result of higher sales of GZh-grade coal.

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

In H1 2017, the Company increased the share of exports in overall concentrate sales to 66%, or 2.1 million tonnes, of which 80% went to the Asia-Pacific and 20% to Europe. Sales to Europe rose, driven by shipments to Ukraine.

Domestic coal concentrate sales fell by 10% year-on-year to 1.1 million tonnes due to a shift in the structure of sales (in favour of raw coal) and greater competition following the launch of new mines in Russia.

Overall raw coal sales volumes soared to 364 thousand tonnes, up from 127 thousand tonnes in H1 2016. At the request of clients, some domestic concentrate sales were fulfilled from EVRAZ' preparation plants (Yuzhkuzbassugol) in a blend with EVRAZ' concentrate, which changed the breakdown of sales.

In the reporting period, by successfully expanding its client base, the Company increased the share of overall concentrate sales to Europe to 13%, up from 9% in H1 2016.

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.

	H1 2017		H1 2016			
	Amount	**Share**	**Amount**	**Share**	**Chg**	**Chg, %**
			US$ million			
Coal concentrate – Russia	153	*44%*	70	*49%*	83	*119%*
Coal concentrate – export	177	*51%*	69	*49%*	108	*157%*
	330	***95%***	**139**	***98%***	**191**	***137%***
Raw coal – Russia (1)	17	*5%*	3	*2%*	14	*n/a*
	347	***100%***	**142**	***100%***	**205**	***144%***
Transport costs in sales price (2)	6		5		1	*20%*
Sales of other goods	63		31		32	*103%*
Rendering of services	23		15		8	*53%*
Revenues	**439**		**193**		**246**	***127%***

(1) Excluding sales of associated coal of 41 thousand tonnes in H1 2017 and 22 thousand tonnes in H1 2016
(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 2017, revenues from sales of coal products, rebased to common delivery terms (FCA Mezhdurechensk), grew by US$205 million, up 144% year-on-year, due to an increase in the average FCA price of 128% and a rise in sales of 11%.

Excluding exchange-rate movements, the transport component in the sales price remained largely unchanged year-on-year.

Raspadskaya sells other goods and services in Russia only. In H1 2017, sales of other goods increased due to growth in revenues from resales of coal purchased from third parties (price factor) and a rise in sales of materials and equipment to Yuzhkuzbassugol (implementation of the unified material base programme at RUK).

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 commission for RUK from resales of coal from Yuzhkuzbassugol, whose increase was driven by the rise in coal product prices.

Given the increase in revenues from coal products (FCA) and sales of other goods, overall revenues soared by 127% year-on-year in H1 2017.

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 2017	H1 2016	Chg	Chg, %
		'000 t		
Raw coal extraction	5,957	4,883	1,074	*22*
Raw coal preparation	4,983	4,867	116	*2*
Coal concentrate production	3,239	3,085	154	*5*
Concentrate yield	65.0%	63.4%		

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

	H1 2017	H1 2016	Chg	Chg, %
		'000 t		
Raspadskaya (GZh)	3,552	2,584	968	37
Razrez Raspadsky (GZh/GzhO)	2,067	2,025	42	2
Raspadskaya-Koksovaya (K)	287	274	13	5
Raspadskaya-Koksovaya, open-pit (KS/OS/KO)	52	-	52	100
Total	**5,957**	**4,883**	**1,074**	**22**

In H1 2017, Raspadskaya increased the volume of raw coal mined to 6.0 million tonnes, up 22% year-on-year.

The volume extracted from the Raspadskaya mine amounted to 3.6 million tonnes, up 37% year-on-year. This was driven by a reduction of time needed for longwall move and downtime during mining.

Coal processing volumes at Raspadskaya’s washing plant rose by 0.1 million tonnes year-on-year. Concentrate yield climbed from 63.4% to 65.0% due to a reduction in the ash content of GZh-grade coal from the Raspadskaya mine. In Q2 2017, as part of an investment project, flotation was launched in the third section of the plant, boosting concentrate output when preparing the difficult-to-clean KS-grade coal. The difference between raw coal volumes used in coal concentrate preparation and the volume of raw coal mined are largely explained by the higher inventories amid temporary logistics constraints and higher raw coal sales volumes.

At field no. 2 at Raspadskaya-Koksovaya, room-and-pillar mining of premium K-grade coal continues.

In Q2 2017, in line with the Company’s development plans, Raspadskaya-Koksovaya began open-pit mining of OS-grade coal, which is in high demand. The first volumes went to EVRAZ, where feedback about quality was positive. Increasing output of OS-grade coal will be one of the main drivers for the business as part of the strategic priority to enhance 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 2017	H1 2016	Chg	Chg, %
		US$		
Cash cost per tonne of concentrate [(1)]	31	25	6	*24*

(1) From the management accounts

The cash cost per tonne of concentrate climbed by 24% year-on-year in H1 2017, due to changes in the US$/RUB exchange rate. In rouble terms, the cash cost per tonne of concentrate remained largely unchanged.

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

	H1 2017		H1 2016			
	Amount	Share	Amount	Share	Chg	Chg, %
			US$ million			
Payroll and payroll taxes	41	31%	33	33%	8	24
Taxes	8	6%	4	4%	4	100
Materials	29	22%	24	24%	5	21
Electricity	7	5%	5	5%	2	40
Other costs	20	15%	15	14%	5	33
Cash cost of production	**105**	**80%**	**81**	**82%**	**24**	**30**
Amortisation	18	14%	13	13%	5	38
Depletion of mining assets	8	6%	5	5%	3	60
Cost of production	**131**	**100%**	**99**	**100%**	**32**	**32**
Transport expenses	**9**		5		4	80
Cost of goods resold	**58**		29		29	100
Cost of sales	**198**		**133**		**65**	**49**

Payroll and payroll tax

Payroll and payroll taxes are one of the largest items in the Company's cash cost of production: 31% in H1 2017 and 33% in H1 2016.

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

	H1 2017	H1 2016	Chg	Chg, %
		US$ million		
Payroll in the cost of production	41	33	8	*24*
Payroll in general and administrative costs	7	6	1	*17*
Payroll in other operating expenses	1	3	(2)	*(67)*
Total payroll	**49**	**42**	**7**	***16%***
Average headcount	5,569	6,090	(521)	*(9)*

The average headcount decreased by 9% year-on-year in H1 2017 due to the ongoing optimisation measures aimed at mothballing field no. 1 at Raspadskaya-Koksovaya and the MUK-96 mine. In addition, in the reporting period, the headcount at the Raspadskaya mine was optimised. Excluding exchange-rate movements, payroll remained virtually unchanged year-on-year.

Taxes

The main tax included in production costs is the mineral extraction tax (MET). In the reporting period, tax payments rose year-on-year due to a significant hike in the deflator ratio (set by the Ministry of Economic Development of Russia) applicable to the MET rate and the 22% increase raw coal output.

Materials and electricity

Material costs climbed by 21% year-on-year in H1 2017. Excluding exchange-rate movements, material costs rose by 2% due to price increases.

Excluding exchange-rate movements, spending on electricity rose by 15% year-on-year, due to greater output and preparation of coal, as well as tariff hikes averaging 17% overall.

Amortisation and depletion of mining assets

Amortisation and depletion of mining assets account for a substantial part of the Company's production costs: 20% in H1 2017 and 18% in H1 2016.

Excluding exchange-rate movements, amortisation and depletion of assets in production costs rose by 21% year-on-year. This was largely due to the commissioning of a substantial number of technical vehicles and a rise in capital maintenance of equipment at Raspadsky Razrez, as well as an increase in output at the Raspadskaya mine.

Transport costs

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

In H1 2017, transport costs rose due to hikes in tariffs on third-party road freight services, as well as expenses associated with launching open-cast mining at Raspadskaya-Koksovaya (excavation, transporting mining output, maintaining roads.

Cost of goods for resale

In H1 2017, the cost of goods for resale rose due to an increase in revenues from resales of coal from third parties (price factor) and in sales of materials and equipment to Yuzhkuzbassugol (implementation of unified material base programme at RUK).

Other expenses

Other expenses consist mainly of spending on industrial services. In H1 2017, they climbed by 33% year-on-year or by 7% excluding exchange-rate movements. This was due to greater spending on degasification ahead of upcoming work at the Raspadskaya mine on the more gas-bearing formations 6-6a and 7-7a. In addition, there was an increase in assembly and disassembly work in preparation for the launch of field no. 6 at the Raspadskaya mine.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist mainly of railway costs and freight-forwarding support (freight) that Raspadskaya 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$6 million in H1 2017 and US$5 million in H1 2016. Excluding exchange-rate movements, they remained largely unchanged year-on-year.

The increase in selling and distribution costs in the H1 2017 was due to the recognition of the provision for doubtful accounts receivable in the amount of US$8 million, as well as the impact of the exchange-rate movements. The increase in selling and distribution costs was partially offset by a decrease in railway tariffs due to the lower shipments under CPT terms.

General and administrative expenses

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

	H1 2017		**H1 2016**			
	Amount	**Share**	**Amount**	**Share**	**Chg**	**Chg, %**
			US$ million			
Payroll and payroll taxes	7	*58%*	6	*60%*	1	*17*
Other expenses	5	*42%*	4	*40%*	1	*25*
	12	***100%***	**10**	***100%***	**2**	***20***

In H1 2017, Raspadskaya's general and administrative costs rose by 20% year-on-year, in rouble terms the general and administrative costs remained largely unchanged year-on-year.

The largest item in general and administrative expenses is payroll and payroll taxes, which account for 58% of overall costs in the reporting period. Excluding exchange-rate movements, the payroll and payroll taxes remained largely unchanged year-on-year.

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 2017, Raspadskaya recognised a foreign-exchange gain of US$15 million arising mainly from Raspadskaya's Eurobonds in US dollars, as the rouble exchange rate against the dollar moved from 60.7 on 1 January 2017 to 55.8 on the redemption date.

Other operating income and expenses

Other operating income and expenses consist of atypical, non-recurring income and expenses. In H1 2017, other operating expenses were US$3 million lower than in same period in 2016, mainly due to costs incurred in 2016 related to mothballing MUK-96 and extinguishing a fire at field no. 1 at Raspadskaya-Koksovaya.

The Company has completed the main phase of restoration of the Raspadskaya 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 30 June 2017, the accumulated cost amounted to US$219 million, of which US$194 million was included in other operating income and expenses (including US$0.8 million in H1 2017).

Interest expense

In H1 2017, the majority of the interest expense was coupon payments on Raspadskaya's Eurobonds. In H1 2017, the Company accrued US$10 million on its 7.75% Eurobonds that matured in April 2017. It also accrue interest on loans from EVRAZ group entities.

Profit tax

In H1 2017, profit tax represented the sum of US$28 million in tax accrued and US$15 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 2017	H1 2016	Chg	Chg, %
		US$ million		
Profit for the period	**168**	**49**	**119**	***n/a***
Adjusted for				
Foreign-exchange differences	(15)	(57)	42	*(74)*
Interest income	(1)	-	(1)	*n/a*
Interest expense	15	19	(4)	*(21)*
Impairment	(1)	11	(12)	*(109)*
Profit tax	43	13	30	*n/a*
EBIT	**209**	**35**	**174**	*n/a*
Adjusted for				
Amortisation and depletion of mineral reserves	26	18	8	*44*
EBITDA	**235**	**53**	**182**	***n/a***
EBITDA margin	*53.5%*	*27.5%*		

In H1 2017, 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.

	30.06.17	31.12.16	Chg	Chg, %
		US$ million		
Long-term loans	89	29	60	*n/a*
Short-term loans, including current part of long-term loans	127	405	(278)	*(69)*
Debt	**216**	**434**	**(218)**	***(50)***
Less:				
Cash and cash equivalents	(49)	(35)	(14)	*40*
Net debt	**167**	**399**	**(232)**	***(58)***

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 the form of loan participation notes (LPNs).

On 27 April 2017, the Raspadskaya Securities DAC loan was repaid, resulting in the full redemption of the Eurobonds issued in the form of LPNs. The redemption took place on the date given in the issue prospectus and was made using own funds from Raspadskaya and subsidiaries, as well as funds from EVRAZ.

Over the reporting period, Raspadskaya's overall debt fell by US$218 million. As of 30 June 2017, it stood at US$216 million and consisted of intragroup loans from EVRAZ entities.

Liquidity

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

The table below gives Raspadskaya's cash flow statement.

	30.06.2017	30.06.2016	Chg	Chg, %
	US$ million			
Cash and cash equivalents at beginning of period	**35**	**48**	**(13)**	***(27)***
Cash from operating activities	201	21	180	*n/a*
Purchases of property, plant and equipment	(39)	(15)	(24)	*160*
Sales of property, plant and equipment	3	2	1	*50*
Loans issued to related parties	(10)	-	(10)	*100*
Repayment of loans by related parties	87	-	87	*100*
Proceeds from loans from related parties	335	-	335	*100*
Repayment of loans from related parties, including interest	(150)	(20)	(130)	*n/a*
Repayment of loans, including interest	(416)	(15)	(401)	*n/a*
Other investment activities, net	1	2	(1)	*(50)*
Effect of foreign-exchange rates on cash and cash equivalents	2	4	(2)	*(50)*
Cash and cash equivalents at end of period	**49**	**27**	**22**	***81***

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.

	30.06.17	31.12.16	Chg	Chg, %
	US$ million			
Inventories	48	33	15	*45*
Accounts receivable	308	468	(160)	*(34)*
Prepayments	5	6	(1)	*(17)*
Tax recoverable	37	38	(1)	*(3)*
Less:				
Payables	(352)	(503)	151	*(30)*
Tax payable	(37)	(35)	(2)	*6*
Advances	(8)	(2)	(6)	*n/a*
Working capital	**1**	**5**	**(4)**	***n/a***

Capital expenditure

The table below summarises Raspadskaya's capital expenditure.

	H1 2017	H1 2016		
	Amount	Amount	Chg	Chg, %
Financing of investments, US$ million	39	15	24	160
Financing of investments per tonne of raw coal mined, US$ million	6.5	3.1	3.5	*113*

In H1 2017, financing for capital investments more than doubled, up 160% year-on-year, or by 115% excluding exchange-rate movements. This was due to the replacement of equipment at Razrez Raspadsky, the repair and renewal of cleaning equipment at the Raspadskaya mine, and the acquisition of equipment to improve operational efficiency 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.

Miscellaneous

These interim condensed 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 (Note 10 of financial statements). In response, the Group implemented a number of cost cutting initiatives and continues to reduce the level of debt.

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.

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.