

Raspadskaya Announces IFRS Results for 2018

Moscow, 22 March 2019 – PAO Raspadskaya (MOEX: RASP; “Raspadskaya” or “the Company”) today announces its consolidated results for 2018 in accordance with International Financial Reporting Standards (IFRS).

Financial performance	2018	2017	Change	Change, %
	<i>US\$ million</i>			
Revenues	1,085	868	217	25
Cost of sales	(478)	(409)	(69)	17
Gross profit	607	459	148	32
<i>Gross profit margin</i>	<i>56%</i>	<i>53%</i>		
Selling and distribution costs	(34)	(24)	(10)	42
General and administrative expenses	(27)	(23)	(4)	17
Social expenses	(1)	(1)	-	-
Loss from disposal of property, plant and equipment	(2)	(1)	(1)	100
Reversal of impairment/(impairment) of assets	(1)	7	(8)	n/a
Foreign exchange gain	23	13	10	77
Other operating income	2	-	2	n/a
Other operating expenses	(8)	(8)	-	-
Operating profit	559	422	137	32
Interest income	10	1	9	n/a
Interest expense	(3)	(23)	20	(87)
Profit before income tax	566	400	166	42
Income tax	(118)	(81)	(37)	46
Profit for the period	448	319	129	40
Earnings per share, cents	63.7	45.4		
EBIT	540	404	136	34
EBITDA	589	455	134	29
<i>EBITDA margin</i>	<i>54.3%</i>	<i>52.4%</i>		
Capital expenditures (CAPEX)	53	61	(8)	(13)
	31/12/18	31/12/17		
Debt	-	38	(38)	(100)
Cash and cash equivalents	67	7	60	n/a

HIGHLIGHTS

- In 2018, revenues climbed 25% year-on-year to US\$1,085 million
- EBITDA was US\$589 million, an increase of US\$134 million from 2017, and the EBITDA margin rose to 54.3%, compared with 52.4% in 2017
- Net operating cash flow was US\$358 million, compared with US\$410 million in 2017
- The Company generated net profit of US\$448 million in the reporting period, compared with US\$319 million in 2017
- On 21 March 2019, the Board of Directors decided not to recommend the payment of dividends for 2018
- Overall coal production (all grades) totalled 12.7 million tonnes in 2018, compared with 11.4 million

tonnes in 2017

- The cash cost per tonne of coal concentrate rose by 19% 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\$107.3 in all regional markets, including US\$124.9 in the domestic market, US\$104.1 in Europe and US\$98.3 in the Asia-Pacific region
- CAPEX totalled US\$53 million in the reporting period, compared with US\$61 million in 2017
- As of 31 December 2018, the Company had cash and cash equivalents of US\$67 million and no total debt

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

“I am pleased to note that the Company achieved its stated production goals. Output exceeded the previous year’s record, rising 11% year-on-year to 12.7 million tonnes.

The first half of 2018 was a difficult period for the miners at the Raspadskaya mine. The mine reduced its production as it was working on only two longwalls while repositioning under difficult mining and geological conditions, as well as due to halting operations briefly to improve safety. However, in the third quarter of 2018, the Raspadskaya mine launched a new, third longwall and began to gradually increase total production volumes. In the fourth quarter of 2018, the mine produced record volumes and reached the total volumes of 6.0 million tonnes in 2018.

Open-pit operations again proved flexible, offsetting lower production at the Raspadskaya mine by boosting output from August 2018. This was achieved by bringing mothballed equipment back in production and hiring contractors. Production coal from the Raspadskaya-Koksovaya mine’s open-pit operations nearly doubled year-on-year to 1.7 million tonnes, ensuring that the Company did not experience a shortage of coal for shipment to customers in 2018.

Good financial results in 2018 were largely driven by favorable external factors in the form of high prices and strong production achievements. At the same time, taking into account the high market volatility of coal prices, the Company considers it necessary to have sufficient financial reserves. The Board of Directors decided not to recommend dividend payments for 2018.

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 Net Debt to EBITDA ratio is above 2.0x

The first dividend payment under the above-mentioned guidance would be considered by the Board of Directors based on the 1H 2019 financial results.

During the reporting period, we continued to implement initiatives aimed at reducing incidents in the workplace. The number of registered accidents fell from 48 in 2017 to 30 in 2018, while the lost-time injury frequency ratio (LTIFR) dropped from 6.40 in 2017 to 3.89 in the reporting period. In 2018, there were no fatalities involving employees of contractors or the Company’s own staff.

The start of 2019 appeared to be challenging for us. In the beginning of February, we had multiple fatalities at Razrez Raspadsky. The car with 24 people on board had fallen from 11 meter high cliff and seven people have lost their lives in this accident. It means that we should do more to minimize the risks associated with our operations and we need to continue working on risk management, working environment improvement and staff training.”

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

This discussion and analysis should be read in conjunction with the interim condensed consolidated financial statements of Raspadskaya for 2018, prepared in accordance with IFRS.

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: Raspadskaya, MUK-96 (merged with Razrez Rapsdsky since 1 August 2017) and Raspadskaya-Koksovaya underground mines; Razrez Rapsdsky 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 1.3 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 2018.

Mine	Proved and probable <i>mln t</i>
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.

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

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 2018, to improve the ventilation of tunnel dead-ends, the Company continued to install high-performance local ventilation fans and high-strength vent pipes. To increase degassing efficiency, a directional

drilling machine was used to drill a total of 18.7 kilometres of degassing holes. To improve air and gas monitoring, the existing analogue methane sensors at working faces were 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. Raspadskaya continues to focus on standardising its Critical Production Safety Programmes and implementing energy isolation programmes, also known as Lockout/Tagout (LOTO). It has also introduced a programme of Behaviour Safety Observations to drive a more proactive approach to preventing injuries and incidents. In 2018, to ensure the safety of mining operations at preparatory faces, the Company continued 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, Raspadskaya continues to develop and introduce new educational programmes and training on safety. In 2018, to educate staff about occupational health and safety on a rolling monthly basis, Raspadskaya completed implementing its “Monthly Feedback” IT system, 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.

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 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. 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, 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.

	2018	2017	Change, %
Average exchange rate, RUB/US\$	62.7078	58.3529	7
	31.12.18	31.12.17	Change, %
Exchange rate, RUB/US\$	69.4706	57.6002	21

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 high prices on the global steel market, as well as greater steel production in Russia. 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 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 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 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).

	2018	2017	Change, %
	<i>US\$/t</i>		
Russia	124.9	127.2	(2)
Europe	104.1	91.6	14
Asia-Pacific	98.3	77.6	27
Average	107.3	95.5	12

In 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.

Sales of Yuzhkuzbassugol' and Mezhegeyugol' coal products

In 2018, as part of its authority as a trading agent, RUK re-sold 8.6 million tonnes of coal products from Yuzhkuzbassugol/Mezhegeyugol for a total of US\$1,030 million, with cost of sales of US\$1,009 million.

As RUK does not act as a principal, it reflects only the commission from these sales of US\$21 million, as included in "Rendering of services" in the Statement of Comprehensive Income.

Regarding these sales, the Statement of Financial Position includes US\$13 million in Trade and other receivables, US\$141 million in Receivables from related parties and US\$326 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>	2018	2017
Revenues		
Rendering of services	21	21

Statement of Financial Position:

<i>(US\$ million)</i>	31.12.2018	31.12.2017
Current assets		
Trade and other receivables	13	17
Receivables from related parties	141	192
Short-term liabilities		
Payables to related parties	326	371
Net payables to Yuzhkuzbassugol/Mezhegeyugol from agent sales	172	162

Sales volumes

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

	H1 2017	H2 2017	H1 2018	H2 2018
	'000 t	'000 t	'000 t	'000 t
Russia	1,093	1,010	962	1,238
Europe	419	590	590	569
Asia-Pacific	1,717	1,795	1,898	1,994
Export, total	2,137	2,385	2,488	2,563
Total	3,230	3,395	3,450	3,801

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

	2018		2017		Change	Change, %
	Vol	Share	Vol	Share		
	'000 t		'000 t		'000 t	
Coal concentrate – Russia	2,200	30%	2,103	32%	98	5
Incl. EVRAZ	749	10%	605	9%	144	24
Coal concentrate – export						
<i>Europe</i>	1,160	16%	1,009	15%	151	15
Incl. EVRAZ	84	1%	506	8%	(422)	(83)
<i>Asia-Pacific</i>	3,892	54%	3,513	53%	379	11
	5,051	70%	4,522	68%	529	12
Coal concentrate – total	7,251	100%	6,625	100%	627	9
<i>Raw coal – Russia</i>	1,957	100%	869	100%	1,088	n/a
Incl. EVRAZ	1,664	85%	678	78%	986	n/a
Concentrate and raw coal	9,208		7,494		1,715	23

In 2018, overall coal product sales volumes rose by 23% year-on-year to 9.2 million tonnes.

The share of coal products sold to EVRAZ steel mills stood at 27% of total coal product sales. The volume sold to EVRAZ steel mills increased up to 2.5 million tonnes in 2018, up from 1.8 million tonnes in 2017, due to higher sales of the OS coal grade.

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

In 2018, the Company increased the share of exports in overall concentrate sales to 70%, or 5.1 million tonnes, of which 77% went to the Asia-Pacific and 23% to Europe. Shipments to Europe grew from 15% of total concentrate sales volumes in 2017 to 16% in the reporting period as relationships with existing clients continued to develop.

Domestic coal concentrate sales rose by 5% year-on-year to 2.2 million tonnes due to product portfolio expansion.

Overall raw coal sales volumes totalled 2.0 million tonnes, an increase of 1.1 million tonnes year-on-year. During the reporting period, some raw coal was sold to EVRAZ' washing plants (Yuzhkuzbassugol) due to a lack of capacity at Raspadskaya washing plant.

In 2018, the Company remained 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.

	2018		2017		Change	Change, %
	Amount	Share	Amount	Share		
	<i>US\$ million</i>					
Coal concentrate – Russia	275	31%	267	40%	8	3
Coal concentrate – export	503	57%	365	54%	138	38
	778	88%	632	94%	146	23
Raw coal – Russia ⁽¹⁾	109	12%	42	6%	67	n/a
	887	100%	674	100%	213	32
Transport costs in sales price ⁽²⁾	33		20		13	65
Sales of other goods	117		127		(10)	(8)
Rendering of services	48		47		1	2
Revenues	1,085		868		217	25

(1) Excluding sales of associated coal of 117 thousand tonnes in 2018 and 131 thousand tonnes in 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 2018, revenues from sales of coal products, rebased to common delivery terms (FCA Mezhdurechensk), increased by US\$213 million, up 32% year-on-year, due to an increase in the average FCA price of 12% and a rise in sales volumes of 23%.

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 2018, sales of other goods fell year-on-year due to a reduction in revenues from third-party coal resales (volume factor). 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 increased by 25% 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.

	2018	2017	Change	Change, %
		<i>'000 t</i>		
Raw coal extraction	12,740	11,435	1,305	11
Raw coal preparation	10,878	10,106	773	8
Coal concentrate production	7,518	6,616	902	14
Concentrate yield	69.1%	65.5%		

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

	2018	2017	Change	Change, %
		<i>'000 t</i>		
Raspadskaya (GZh)	5,975	6,570	(595)	(9)
Razrez Rapsadsky (GZh, GZhO)	4,517	3,590	927	26
Raspadskaya-Koksovaya (K, KO)	501	555	(54)	(10)
Raspadskaya-Koksovaya, open-pit (OS, KS)	1,747	720	1,027	n/a
Total	12,740	11,435	1,305	11

In 2018, Raspadskaya's total volume of raw coal mined rose by 11% year-on-year to 12.7 million tonnes. The growth largely came from the open-pit mining operations at Razrez Rapsadsky (up 26% year-on-year) and the site of the Raspadskaya-Koksovaya mine (up 143% year-on-year) after additional equipment that had been mothballed was brought back online and external contractors were hired.

Despite working on just two longwalls in Q2 2018, as well as difficult geological conditions and a brief operational halt to improve safety, the Raspadskaya mine launched steady production from a third longwall in Q3 2018 and delivered record output in Q4 2018, bringing total production in 2018 to 6 million tonnes.

Production at the Raspadskaya-Koksovaya mine's open-pit site nearly doubled year-on-year to 1.7 million tonnes (1.6 million tonnes excluding oxidized coal), helping the Company to fill all customer orders in 2018.

Coal processing volumes at the Raspadskaya coal-washing plant rose by 14% year-on-year. Concentrate yield grew to 69.1%, primarily due to a reduction in the ash content of the GZh-grade coal mined at Razrez Rapsadsky, as well as an increase in the share of OS-grade coal in the product mix (with an average yield of more than 70%).

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.

	2018	2017	Change	Change, %
	<i>US\$</i>			
Cash cost per tonne of concentrate ⁽¹⁾	38	32	6	19

(1) From the management accounts

In 2018, the cash cost per tonne of concentrate increased by 19% year-on-year (up US\$6 per tonne), primarily due to lower production at the Raspadskaya mine, higher prices of input resources and increased production volumes at Raspadskaya-Koksovaya open-pit operations and Razrez Raspadsky with higher cost per tonne, which was partly offset by Russian ruble depreciation in the reporting period.

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

	2018		2017		Change	Change, %
	Amount	Share	Amount	Share		
	<i>US\$ million</i>					
Payroll and payroll taxes	87	26%	86	30%	1	1
Taxes	18	5%	15	5%	3	20
Materials	96	28%	73	25%	23	32
Electricity	17	5%	17	6%	-	-
Other costs	71	21%	50	17%	21	42
Cash cost of production	289	86%	241	83%	48	20
Depreciation	36	11%	36	12%	-	-
Depletion of mining assets	13	4%	14	5%	(1)	(7)
Cost of production	338	100%	291	100%	47	16
Transport expenses	45		19		26	n/a
Cost of goods resold	113		116		(3)	(3)
Changes in work in progress and finished goods	(18)		(17)		(-1)	6
Cost of sales	478		409		69	17

Payroll and payroll taxes

Payroll and payroll taxes are one of the largest items in the Company's cash cost of production: 26% in 2018 and 30% in 2017.

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

	2018	2017	Change	Change, %
	<i>US\$ million</i>			
Payroll in the cost of production	87	86	1	1
Payroll in general and administrative costs	15	13	2	15
Payroll in other operating expenses	-	1	(1)	n/a
Total payroll	102	100	2	2
Average headcount	5,607	5,535	72	1

In 2018, the average headcount edged up by 1% year-on-year. Excluding exchange-rate movements, payroll in the cost of production increased by 8% year-on-year due to: the indexation of salaries; the creation of new positions as part of the operational improvements projects; the expansion of open-pit mining operations; and the strengthening of the production and technical services teams.

Payroll in general and administrative costs increased by 15% year-on-year, or by 23% excluding exchange-rate movements, 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.

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 2018, MET payments rose year-on-year due to an 11% increase in raw coal output.

During the reporting period, there was also an increase in environmental pollution fees within the normal range due to an increase in open-pit mining volumes.

Materials and electricity

In 2018, material costs increased by 32% year-on-year. Excluding exchange-rate movements, material costs rose by 41% due to higher volumes and prices for purchased coal used to produce blended concentrate, as well as to higher prices for materials.

Excluding exchange-rate movements, spending on electricity rose by 6% year-on-year due to greater coal preparation volumes, as well as tariff hikes averaging 4%.

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 2018 and 17% in 2017. Excluding exchange-rate movements, depreciation and depletion of assets in production costs rose by 6% year-on-year. Depreciation rose due to greater capital maintenance at Razrez Rapsdsky and the Rapsdskaya mine during 2017, while depletion of mining assets fell following a decrease in depletion expense amid a reduction in expected future capital investments at the Rapsdskaya mine.

Transport costs

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

In 2018, transport costs rose due to hikes in tariffs on third-party road freight services, as well as expenses associated with the increase of production at the site of open-pit operations at the Rapsdskaya-Koksovaya mine (+143% year-on-year) and Razrez Rapsdsky (+26% year-on-year).

Cost of goods for resale

In 2018, the cost of goods for resale fell 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 and other entities within the Rapsdskaya group rose during the period amid higher prices and production volumes.

Other expenses

Other expenses consist mainly of spending on industrial services. In 2018, they increased by 52% year-on-year excluding exchange-rate movements. This was primarily due to higher production of the premium OS-grade coal at the site of open-pit operations at the Rapsdskaya-Koksovaya mine.

Other income and expense

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 and DAP terms. They are included in revenues from sales of coal products and totalled US\$33 million in 2018 and US\$20 million in 2017.

General and administrative expenses

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

	2018		2017		Change	Change, %
	Amount	Share	Amount	Share		
	<i>US\$ million</i>					
Payroll and payroll taxes	15	56%	13	58%	2	15
Other taxes	1	4%	1	4%	-	-
Materials	1	4%	1	4%	-	-
Depreciation and amortisation	1	4%	1	4%	-	-
Other expenses	9	33%	7	30%	2	29
	27	100%	23	100%	4	17

In 2018, the Company's general and administrative expenses increased by 17% year-on-year, or by 25% excluding exchange-rate movements.

The growth was caused by an increase in the payroll budget due to: the 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 2018, the Company impaired certain functionally obsolete items of property, plant and equipment of Raspadskaya mine with no plans for further use in the amount of US\$1 million.

Foreign-exchange differences

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 2018, Raspadskaya recognised a foreign-exchange gain of US\$23 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 2018, interest expense totalled US\$3 million on loans from EVRAZ group entities, effect of increase in passage of time of site restoration provision and interest cost on benefit obligation.

Profit tax

In 2018, profit tax represented the sum of US\$98 million in tax accrued and US\$20 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.

	2018	2017	Change	Change, %
	<i>US\$ million</i>			
Profit for the period	448	319	129	40
<i>Adjusted for:</i>				
Social expenses	1	1	-	-
Foreign-exchange differences	(23)	(13)	(10)	77
Interest income	(10)	(1)	(9)	n/a
Interest expense	3	23	(20)	(87)
Gain from disposal of property, plant and equipment	2	1	1	100
Impairment of assets	1	(7)	8	n/a
Profit tax	118	81	37	46
EBIT	540	404	136	34
<i>Adjusted for:</i>				
Amortisation and depletion of mineral reserves	49	51	(2)	4
EBITDA	589	455	134	29
<i>EBITDA margin</i>	54.3%	52.4%		

In 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.

	31.12.2018	31.12.2017	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	(67)	(45)	(22)	n/a
Net debt	(67)	(7)	(60)	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.

	31.12.2018	31.12.2017	Change	Change, %
	<i>US\$ million</i>			
Cash and cash equivalents at beginning of period	45	35	10	29
Cash from operating activities	358	410	(52)	(13)
Purchases of property, plant and equipment	(53)	(61)	8	(13)
Sales of property, plant and equipment	1	3	(2)	(67)
Loans issued to related parties	(271)	(10)	(261)	n/a
Repayment of loans by related parties	24	85	(61)	(72)
Proceeds from loans from related parties	-	339	(339)	n/a
Repayment of loans from related parties, including interest	(37)	(336)	299	(89)
Repayment of loans, including interest	-	(416)	416	n/a
Other investment activities, net	1	1	-	-
Effect of foreign-exchange rates on cash and cash equivalents	(1)	(5)	4	(80)
Cash and cash equivalents at end of period	67	45	22	49

Raspadskaya intends to maintain sufficient liquidity to continue its activities in the changing economic environment.

Working capital

The table below details the Company's working capital.

	31.12.18	31.12.17	Change	Change, %
	<i>US\$ million</i>			
Inventories	69	49	20	41
Accounts receivable	498	427	71	17
Prepayments	11	8	3	38
Tax recoverable	66	62	4	6
<i>Less:</i>				
Payables	(477)	(513)	36	(7)
Tax payable	(63)	(42)	(21)	50
Working capital	104	(9)	113	n/a

Capital expenditure

The table below summarises Raspadskaya's capital expenditure.

	2018	2017		
	Amount	Amount	Change	Change, %
Financing of investments, US\$ million	53	61	(8)	(13)
Financing of investments per tonne of raw coal mined, US\$ million	4.2	5.3	(1.2)	(22)

In 2018, financing for capital investments dropped by 13% year-on-year, or by 7% excluding exchange-rate movements. This was due to the lower rate of equipment replacement at Razrez Rospadsky compared with 2017, as well as the significant reduction during the period of equipment acquisition at Rospadskaya's preparation plant.

Off-balance-sheet arrangements

Rospadskaya 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.

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