Raspadskaya Announces IFRS Results for 2017

Moscow, 22 March 2018 – Raspadskaya (MOEX: RASP; "Raspadskaya" or "the Company") today announces its consolidated results for 2017 in accordance with International Financial Reporting Standards (IFRS).

Financial performance	**2017**	**2016**	**Change**	**Change, %**
	US$ million			
Revenues	868	502	366	73
Cost of sales	(409)	(292)	(117)	40
Gross profit	**459**	**210**	**249**	**n/a**
Gross profit margin	*53%*	*42%*		
Selling and distribution costs	(24)	(17)	(7)	41
General and administrative costs	(23)	(20)	(3)	15
Social expenses	(1)	(1)	-	-
Loss on disposal of property, plant and equipment	(1)	(1)	-	-
Impairment of assets	7	34	(27)	(79)
Foreign-exchange gains	13	77	(64)	(83)
Other operating income	-	1	(1)	(100)
Other operating expenses	(8)	(12)	4	(33)
Operating profit	**422**	**271**	**151**	**56**
Interest income	1	-	1	100
Interest expenses	(23)	(38)	15	(39)
Profit before tax	**400**	**233**	**167**	72
Profit tax	(81)	(48)	(33)	69
Profit for the period	**319**	**185**	134	72
Profit per share, *cents*	**45.4**	**26.3**		
EBIT	**404**	**162**	**242**	n/a
EBITDA	**455**	**204**	**251**	n/a
EBITDA margin	*52.4%*	*40.6%*		
Capital expenditures (CAPEX)	**61**	**38**	23	61
	31/12/17	**31/12/16**		
Debt	**38**	**434**	(396)	(91)
Net debt	**(7)**	**399**	(406)	n/a

HIGHLIGHTS

- In 2017, revenues totalled US$868 million, up 73% year-on-year
- EBITDA amounted to US$455 million, an increase of US$251 million from 2016, and the EBITDA margin rose to 52.4%, compared with 40.6% last year
- Net operating cash flow was US$410 million, compared with US$171 million in 2016
- The Company generated net profit of US$319 million in the reporting period, compared with US$185 million in 2016
- On 21 March 2018, the Board of Directors decided not to recommend dividend payments for 2017
- Overall coal production (all grades) totalled 11.4 million tonnes, compared with 10.5 million tonnes in 2016

- The cash cost of 1 tonne of coal concentrate rose by 23% year-on-year to US$32 per tonne
- The actual average selling price of semi-hard coking coal concentrate, rebased to common delivery terms (FCA Mezhdurechensk), amounted to US$95.5 in all regional markets, including US$127.2 in the domestic market, US$91.6 in Europe and US$77.6 in the Asia-Pacific region
- CAPEX totalled US$61 million in the reporting period, compared with US$38 million in 2016
- As of 31 December 2017, the Company's net debt amounted to a negative US$7 million, while total debt consisting of intragroup loans from EVRAZ amounted to US$38 million

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

"In 2017, the Company delivered strong results. We increased our production by 9% year-on-year to 11.4 million tonnes. I would like to note the stable work of the Raspadskaya mine, where production rose 16% year-on-year to 6.6 million tonnes by reducing the time needed for longwall moves and optimising downtime during mining. In addition, in Q2 2017, Raspadskaya-Koksovaya began extracting OS-grade coal, which is in high demand, enhancing the product portfolio.

Due to a significant increase in prices for our products, in line with global benchmarks, as well as to our team's safe, stable and well-coordinated work, we ended 2017 with EBITDA of US$455 million, compared with US$204 million in 2016, and an EBITDA margin of 52.4%. In 2017, net profit totalled US$319 million, compared with US$185 million in 2016. We also repaid US$400 million in Eurobonds during the reporting period, significantly reducing our debt burden.

While acknowledging good performance in 2017, mostly driven by the positive market environment, the Board of Directors had to consider longer-term prospects and viability of the Company when making decision regarding dividend payment.

The Board noted:

- significant coal price volatility ranging between US$90/t and US$189/t (HCC, spot, FOB Australia) in the span of the last two years, resulting in Raspadskaya EBITDA of US$455 million in 2017 versus only US$106 million in 2015;
- investment plans targeted at coal capacity increase benefiting from strong coal price upswing;
- stability of the business and HSE risks inherent in coal mining;
- in 2017, operating cash flow of US$410 million was directed towards capex funding of US$61 million and debt repayment. Total debt was reduced by $396m from the beginning of the year resulting in the stronger balance sheet going forward.

Based on the above, the Board decided not to recommend dividend payments for 2017. Should the prices on coal market remain strong, the Board will consider the announcement of sustainable dividend policy subject to the development of medium-term plan aimed at further de-risking of operations.

In 2017, we continued to focus on reducing incidents in the workplace. The number of registered accidents totalled 48, down from 62 in 2016, while the lost-time injury frequency ratio reached 6.40, down from 7.79 a year earlier. Regretfully, we had one fatal incident with contractor and there were no fatalities among our employees in the reporting period. Safety remains our overriding priority."

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

This discussion and analysis should be read in conjunction with the consolidated financial statements of Raspadskaya for 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 (merged with Razrez Raspadsky since 1 August 2017) and Raspadskaya-Koksovaya, one open-pit operation (Razrez Raspadsky), a coal washing plant, several coal transportation and production infrastructure enterprises, and RUK, a trading and management company.

Contents

Mineral reserves and resources

Raspadskaya has reserves of 1.4 billion tonnes of high-quality semi-hard coking coal of Zh, GZh, GZhO grades and hard coking coal of 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, Raspadskaya conducted valuation of the mineral reserves in compliance with JORC Code. The valuation was conducted as of 1 July 2017 by IMC Montan.

The table below details Raspadskaya's JORC-equivalent reserves of coking coal as at 31 December 2017.

Mine	**Proved and probable** *'000 tonnes*
Raspadskaya	924,637
Raspadskaya-Koksovaya (includes Razrez Koksovy)	208,372
MUK-96	113,058
Razrez Raspadsky	109,357
Total	**1,355,424**

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

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, our 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 Raspadskaya.

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 degasification). In 2017, as part of programmes to ventilate end cuts in mines, high-performance local ventilation fans and high-strength vent pipes were installed. To increase degassing efficiency, a directional drilling machine was installed. To improve air and gas control, a system was installed to monitor methane concentration from portable gas analysers in real-time using multifunctional security systems. The Company continues to focus on standardising critical safety programmes and implementing an energy-isolation programme using Lockout-Tagout-Tryout procedures. It has also introduced a programme of behaviour safety observations to drive a more proactive approach to preventing injuries and incidents. In 2017, to ensure the safety of shortwall mining operations, the Company also began to install systems to lockout tunnelling machines when personnel are in hazardous areas, as well as underground video surveillance systems.

Based on an analysis of injuries reported, the Company is introducing new educational programmes and training on safety. To educate staff about occupational health and safety, 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 and habits. In general, the Company is undertaking major efforts to promote occupational safety. It holds “Young workers” annual conference dedicated to safety matters. 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.

Raspadskaya conducts 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 federal government or government agencies could adopt new laws and regulations that could affect its operations. New laws, regulations or other requirements could negatively influence 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.

While these risks are mostly outside 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.

The risk of inflation could also have an impact on operating costs and free cash flow. This risk is managed by programmes to optimise net working capital, CAPEX and costs.

The Group’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 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

IT 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. The functionality 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 introduce additional measures aimed at mitigating such risks.

Other
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.

	2017	**2016**	**Change, %**
Average exchange rate, *RUB/US$*	58.3529	67.0349	(13)
	31.12.17	**31.12.16**	**Change, %**
Exchange rate, *RUB/US$*	57.6002	60.6569	(5)

Production capacity

The production capacity of Raspadskaya's mines is a factor that sets an upper limit to production and, consequently, sales volumes. Many factors influence the Company's production capacity, including equipment productivity and mining conditions.

Raspadskaya's business activity depends on its ability to maintain a stable production level. As such, the availability and development of mineral reserves, the level of maintenance of mining equipment and overall facilities, and the provision of safe working conditions significantly affect the Company's activities.

Supply of and demand for coking coal

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.

One important factor influencing the supply-demand balance is the steel demand recovery in the domestic automotive, construction and engineering industries. This supports the demand for coking coals used in the production of coke by 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 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. Prices for export sales depended on international quarterly and spot benchmarks for hard and semisoft coking coal using appropriate premiums or discounts. 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).

	2017	**2016**	**Change, %**
	US$/t		
Russia	127.2	72.1	76
Europe	91.6	57.4	60
Asia-Pacific	77.6	51.0	52
Average	**95.5**	**60.2**	**59**

In 2017, all 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 East Metals AG (EMAG), a trading company in Switzerland that 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 2017, as part of its authority as a trading agent, RUK re-sold 8.6 million tonnes of coal products from Yuzhkuzbassugol for a total of US$1,035 million, with cost of sales of US$1,014 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$17 million in Trade and other receivables, US$185 million in Receivables from related parties and US$368 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)	**2017**	**2016**
Revenues		
Rendering of services	21	11

Statement of Financial Position:

(US$ million)	**31.12.2017**	**31.12.2016**
Current assets		
Trade and other receivables	17	28
Receivables from related parties	185	234
Short-term liabilities		
Payables to related parties	368	401
Net payables to Yuzhkuzbassugol from agent sales	**166**	**139**

Sales volumes

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

	H1 2016	**H2 2016**	**H1 2017**	**H2 2017**
	'000 t	*'000 t*	*'000 t*	*'000 t*
Russia	1,220	1,350	1,093	1,010
Europe	291	146	419	590
Asia-Pacific	1,605	1,585	1,717	1,795
Export, total	1,896	1,731	2,137	2,385
Total	**3,116**	**3,080**	**3,230**	**3,395**

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

	2017		2016			
	Vol	**Share**	**Vol**	**Share**	**Change**	**Change, %**
	'000 t		*'000 t*		*'000 t*	
Coal concentrate – Russia	**2,103**	***32%***	***2,569***	***41%***	***(466)***	**(18)**
Incl. EVRAZ	605	*9%*	252	*4%*	353	n/a
Coal concentrate – export						
Europe	1009	*15%*	437	*7%*	572	n/a
Incl. EVRAZ	506	*8%*	56	*1%*	450	n/a
Asia-Pacific	3,513	*53%*	3,190	*52%*	323	10
	4,522	***68%***	**3,627**	***59%***	**895**	**25**
Coal concentrate – total	**6,625**	***100%***	**6,196**	***100%***	**429**	**7**
Raw coal – Russia	869	100%	243	100%	626	n/a
Incl. EVRAZ	678	*78%*	129	*53%*	549	n/a
Concentrate and raw coal	**7,494**		**6,439**		**1,055**	**16**

In 2017, overall coal product sales volumes rose by 16% year-on-year to 7.5 million tonnes.

The share of coal products sold to EVRAZ steel mills stood at 24% of total coal product sales, compared with 7% in 2016. The volume sold to EVRAZ steel mills rose to 1.8 million tonnes, up from 0.4 million tonnes in 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 coal grade, etc.

In 2017, the Company increased the share of exports in overall concentrate sales to 68%, or 4.5 million tonnes, of which 78% went to the Asia-Pacific and 22% to Europe. Sales to Europe rose, driven by shipments to Ukraine, Slovakia and Turkey.

Domestic coal concentrate sales fell by 18% year-on-year to 2.1 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 increased to 869 thousand tonnes, up 626 thousand tonnes compared with 2016. At the request of clients, some domestic concentrate sales were fulfilled from EVRAZ' washing plants (Yuzhkuzbassugol) in a blend with EVRAZ' concentrate, which changed the sales mix.

In the reporting period, by successfully expanding its client base, the Company increased the share of overall concentrate sales to Europe to 15%, up from 7% in 2016.

In 2018, 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.

	2017		2016			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
			US$ million			
Coal concentrate – Russia	267	*40%*	185	*49%*	82	44
Coal concentrate – export	365	*54%*	188	*49%*	177	94
	632	***94%***	**373**	***98%***	**259**	**69**
Raw coal – Russia (1)	42	*6%*	5	*2%*	37	n/a
	674	***100%***	**378**	***100%***	**296**	**78**
Transport costs in sales price (2)	20		13		7	54
Sales of other goods	127		75		52	69
Rendering of services	47		36		11	31
Revenues	**868**		**502**		**366**	**73**

(1) Excluding sales of associated coal of 131 thousand tonnes in 2017 and 126 thousand tonnes in 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 2017, revenues from sales of coal products, rebased to common delivery terms (FCA Mezhdurechensk), grew by US$296 million, up 78% year-on-year, due to an increase in the average FCA price of 59% and a rise in sales volumes of 16%.

Excluding exchange rate movements, the transport component in the sales price rose by 34% year-on-year due to the increase in shipments to Ukraine on DAP terms and higher costs for leased wagons in 2017.

Raspadskaya sells other goods and services in Russia only. In 2017, sales of other goods increased due to growth in revenues from resale of coal purchased from third parties (price factor) and a rise in sales of materials and equipment to Yuzhkuzbassugol (higher prices, increased consumption and 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, the increase in which 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 73% year-on-year in 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.

	2017	**2016**	**Change**	**Change, %**
		'000 t		
Raw coal extraction	11,435	10,512	923	9
Raw coal preparation	10,106	9,716	390	4
Coal concentrate production	6,616	6,218	398	6
Concentrate yield	65.5%	64.0%		

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

	2017	2016	Change	Change, %
		'000 t		
Raspadskaya (GZh)	6,570	5,683	887	16
Razrez Raspadsky (GZh/GzhO)	3,590	4,367	(777)	(18)
Raspadskaya-Koksovaya (K, KO)	555	462	93	20
Raspadskaya-Koksovaya, open-pit (KS/OS)	720	-	720	100
Total	**11,435**	**10,512**	**923**	**9**

In 2017, Raspadskaya increased the volume of raw coal mined to 11.4 million tonnes, up 9% year-on-year. The growth in production was due to the stable operation of the Raspadskaya mine (up 887 thousand tonnes per year), as well as to the development of open-pit coking coal production of the premium OS grade and room-and-pillar mining at the Raspadskaya-Koksovaya mine. Meanwhile, production at the Razrez Raspadsky mine dropped as part of its production capacity was redirected to the Raspadskaya-Koksovaya open-pit mine.

Coal processing volumes at Raspadskaya's washing plant rose by 0.4 million tonnes year-on-year. Concentrate yield climbed from 64.0% to 65.5% 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 Raspadskaya-Koksovaya's field no. 2, room-and-pillar mining of premium K-grade coal continues.

In mid-2017, in line with the Company's product portfolio development plans, Raspadskaya-Koksovaya began open-pit mining of OS-grade coal, which is in high demand. The project required part of Razrez Raspadsky's production capacity to be transferred, which ultimately was fully compensated in terms of both production and financial results. Increasing output of OS-grade coal is 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.

	2017	2016	Change	Change, %
		US$		
Cash cost per tonne of concentrate (1)	32	26	6	23

(1) From the management accounts

The cash cost per tonne of concentrate climbed by 23% year-on-year in 2017, of which US$4 per tonne was due to changes in the US$/RUB exchange rate. In rouble terms, the cash cost per tonne of concentrate rose by 11%. This was primarily due to higher costs, which were partly compensated by increased production volumes and concentrate yield.

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

	2017		2016			
	Amount	Share	Amount	Share	Change	Change, %
	US$ million					
Payroll and payroll taxes	81	29%	74	35%	7	9
Taxes	14	5%	9	4%	5	56
Materials	67	24%	45	21%	22	49
Electricity	16	6%	12	6%	4	33
Other costs	47	17%	32	15%	15	47
Cash cost of production	**225**	**82%**	**172**	**81%**	**53**	**31**
Amortisation	37	13%	29	14%	8	28
Depletion of mining assets	13	5%	11	5%	2	18
Cost of production	**275**	**100%**	**212**	**100%**	**63**	**30**
Transport expenses	18		12		6	50
Cost of goods resold	116		68		48	71
Cost of sales	**409**		**292**		**117**	**40**

Payroll and payroll tax

Payroll and payroll taxes are one of the largest items in the Company's cash cost of production: 29% in 2017 and 35% in 2016.

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

	2017	2016	Change	Change, %
	US$ million			
Payroll in the cost of production	81	74	7	9
Payroll in general and administrative costs	13	12	1	8
Payroll in other operating expenses	1	5	(4)	(80)
Total payroll	**95**	**91**	**4**	**4**
Average headcount	**5,535**	**5,853**	**(318)**	**(5)**

The average headcount decreased by 5% year-on-year in 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 in the cost of production decreased by 4% year-on-year due to the increase in the capitalization of wages in the inventory in as a result of an increase in their cost. Payroll in the general and administrative costs remained flat year-on-year. Payroll in other operating expenses fell, mostly due to a reduction in costs as a result of the mothballing of field no. 1 at Raspadskaya-Koksovaya and the MUK-96 mine.

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 Russia's Ministry of Economic Development) applicable to the MET rate and the 9% increase in raw coal output.

Materials and electricity

Material costs climbed by 49% year-on-year in 2017. Excluding exchange-rate movements, material costs rose by 29% year-on-year due to price increases and increased consumption amid higher production. Additionally, in 2016, other income was recognised based on the results of the stock take.

Excluding exchange-rate movements, spending on electricity rose by 17% year-on-year, due to greater output and preparation of coal, as well as tariff hikes averaging 10.6% overall.

Amortisation and depletion of mining assets

Amortisation and depletion of mining assets account for a substantial part of the Company’s production costs: 18% in 2017 and 19% in 2016.

Excluding exchange-rate movements, amortisation and depletion of assets in production costs rose by 8% 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 Razrez Raspadsky, 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 washing plant by both rail and road.

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

Cost of goods for resale

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

Other expenses

Other expenses consist mainly of spending on industrial services. In 2017, they climbed by 47% year-on-year or by 25% excluding exchange-rate movements. This was due to the beginning of open-pit mining of OS-grade coal at the Raspadskaya-Koksovaya mine. In addition, there was an increase spending on degasification due to work at the Raspadskaya mine on the more gas-bearing formations 6-6a and 7-7a.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist mainly of railway costs and freight-forwarding support (freight) that 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$20 million in 2017, compared with US$13 million in 2016. The growth in selling and distribution costs in 2017 was caused by the increased costs of rail transport, exchange-rate movements and recognition of the provision for doubtful accounts receivable in the amount of US$1 million.

General and administrative expenses

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

	2017		2016			
	Amount	**Share**	**Amount**	**Share**	**Change**	**Change, %**
	US$ million					
Payroll and payroll taxes	13	58%	12	60%	1	8
Other taxes	1	4%	0	0%	1	100
Materials	1	4%	0	0%	1	100
Other expenses and taxes	7	30%	7	35%	-	-
Depreciation and amortisation	1	4%	1	5%	-	-
	23	**100%**	**20**	**100%**	**3**	**15**

In 2017, Raspadskaya's general and administrative costs rose by 15% year-on-year but were flat in rouble terms.

The largest item in general and administrative expenses is payroll and payroll taxes, which accounted for 58% of overall costs in the reporting period. Excluding exchange-rate movements, the share of payroll and payroll taxes was unchanged from 2016.

Social expenses

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

Impairment

The Group impaired certain functionally obsolete items of property, plant and equipment with no plans for further use belonging to Raspadskaya mine in the amount of US$ 2 million and recognised gain from reversal of impairment in the amount of US$ 9 million for some objects that according to new plans will be used at Raspadskaya mine and at Koksovaya mine.

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 2017, Raspadskaya recognised a foreign-exchange gain of US$13 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 2017, other operating expenses were US$4 million lower than in 2016, mainly due to costs incurred in 2016 related to mothballing MUK-96 and extinguishing a fire at field no. 1 at the Raspadskaya-Koksovaya mine.

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 31 December 2017, the accumulated cost amounted to US$220 million, of which US$195 million was included in other operating income and expenses (including US$1.8 million in 2017).

Interest expense

In 2017, interest expense totalled US$23 million. Coupon payments amounted to US$10 million on Raspadskaya's 7.75% Eurobonds that matured in April 2017. The Company also accrued interest on loans from EVRAZ group entities.

Profit tax

In 2017, profit tax represented the sum of US$49 million in tax accrued and US$32 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.

	2017	**2016**	**Change**	**Change, %**
	US$ million			
Profit for the period	**319**	**185**	**134**	**72**
Adjusted for				
Social expenses	1	1	-	
Foreign-exchange differences	(13)	(77)	64	(83)
Interest income	(1)	-	(1)	n/a
Interest expense	23	38	(15)	(39)
Loss from PPE disposal	1	1		
Impairment	(7)	(34)	27	(79)
Profit tax	81	48	33	69
EBIT	**404**	**162**	**242**	n/a
Adjusted for				
Amortisation and depletion of mineral reserves	51	42	9	21
EBITDA	**455**	**204**	**251**	**n/a**
EBITDA margin	*52.4%*	*40.6%*		

In 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.

	31.12.17	**31.12.16**	**Change**	**Change, %**
	US$ million			
Long-term loans	-	29	(29)	(100)
Short-term loans, including current part of long-term loans	38	405	(367)	(91)
Debt	**38**	**434**	**(396)**	**(91)**
Less:				
Cash and cash equivalents	(45)	(35)	(10)	29
Net debt	**(7)**	**399**	**(406)**	**n/a**

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 US$400 million 7.75% Eurobonds issued in the form of LPNs were fully redeemed. 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 total debt fell by US$396 million. As of 31 December 2017, it stood at US$38 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.

	31.12.2017	31.12.2016	Change	Change, %
	US$ million			
Cash and cash equivalents at beginning of period	**35**	**48**	**(13)**	**(27)**
Cash from operating activities	410	171	239	140
Purchases of property, plant and equipment	(61)	(38)	(23)	61
Sales of property, plant and equipment	3	3	0	0
Loans issued to related parties	(10)	(65)	55	n/a
Repayment of loans by related parties	85	-	85	100
Proceeds from loans from related parties	339	60	279	n/a
Repayment of loans from related parties, including interest	(336)	(118)	(218)	185
Repayment of loans, including interest	(416)	(31)	(385)	n/a
Other investment activities, net	1	2	(1)	(50)
Effect of foreign-exchange rates on cash and cash equivalents	(5)	3	(8)	n/a
Cash and cash equivalents at end of period	**45**	**35**	**10**	**29**

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.

	31.12.17	31.12.16	Change	Change, %
	US$ million			
Inventories	49	33	16	48
Accounts receivable	427	468	(41)	(9)
Prepayments	8	6	2	33
Tax recoverable	62	38	24	63
Less:				
Payables	(513)	(503)	(10)	2
Tax payable	(42)	(35)	(7)	20
Advances	0	(2)	2	(100)
Working capital	**(9)**	**5**	**(14)**	**n/a**

Capital expenditure

The table below summarises Raspadskaya's capital expenditure.

	2017 Amount	2016 Amount	Change	Change, %
Financing of investments, US$ million	61	38	23	61
Financing of investments per tonne of raw coal mined, US$ million	5.3	3.6	1.7	48

In 2017, financing for capital investments grew by 61% year-on-year, or by 40% 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 for Raspadskaya's washing 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

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 and the seller pays the port handling.