Raspadskaya announces its financial results
for the first half of 2014 in accordance with IFRS

Moscow, 21 August 2014 - Raspadskaya (MICEX - RTS: RASP) (hereinafter – "Raspadskaya" or the "Company") announces its consolidated financial results for 1H2014 in accordance with IFRS:

Financial Performace	**1H2014**	**1H2013**	**Change**	
		US$000		
Revenue	**244,812**	300,997	(56,185)	*(19)%*
Cost of sales	**(246,188)**	(244,321)	(1,867)	*1%*
Gross profit /(loss)	**(1,376)**	56,676	(58,052)	*(102)%*
Gross profit margin	*n/a*	*19%*		
Selling and distribution costs	**(12,488)**	(29,423)	16,935	*(58)%*
General and administrative costs	**(28,175)**	(30,585)	2,410	*(8)%*
Social expenses	**(922)**	(1,921)	999	*(52)%*
Loss on disposal of PP&E	**(1,376)**	(794)	(582)	*73%*
Impairment of assets	**(893)**	-	(893)	*n/a*
Foreign exchange losses	**(12,925)**	(33,993)	21,068	*(62)%*
Other operating income	**1,038**	2,549	(1,511)	*(59)%*
Other operating expenses	**(7,116)**	(23,543)	16,427	*(70)%*
Operating loss	**(64,233)**	(61,034)	(3,199)	*5%*
Dividend income	**-**	61	(61)	*(100)%*
Interest income	**419**	2,736	(2,317)	*(85)%*
Interest expense	**(19,620)**	(23,230)	3,610	*(16)%*
Loss before tax	**(83,434)**	(81,467)	(1,967)	*2%*
Income tax	**16,038**	13,737	2,301	*17%*
Loss for the period	**(67,396)**	(67,730)	334	*0%*
Loss per share, *cents*	**(9.6)**	(9.7)		
Adjusted EBIT	**(49,039)**	(26,247)	(22,792)	*n/a*
Adjusted EBITDA	**(8,318)**	26,338	(34,656)	*n/a*
Adjusted EBITDA margin	*n/a*	*8,8%*		
Capital expenditures	**32,679**	35,631	(2,952)	*(3)%*
	30/06/14	**31/12/13**		
Debt	**499,165**	504,466	(5,301)	*(1)%*
Net debt	**490,651**	498,810	(8,159)	*(2)%*

HIGHLIGHTS:

- The revenues from coal sales in the 1H2014 amounted to US$244.8 which is 19% below the result for the same period last year
- The adjusted EBITDA amounted to US$(8.3) million
- Lower domestic sales and higher share of exports, alongside with a downward price trend resulted in a loss of US$67.4 million for the Company
- Production of all grade of raw coal totaled in 4.4 million tonnes in the 1H2014 vs. 4.0 million tonnes in the 1H2013
- The estimated cash cost of 1 tonne of coal concentrate in the 1H2014 increased by 3% vs. 1H2013 and amounted to US$55.8 per tonne

- The actual average selling price of semi-hard coking coal concentrate rebased to common delivery terms (FCA Mezhdurechensk), amounted to US$63.5 in all the regional markets, including US$72.2 in the domestic market, US$56.3 in Europe and US$50.4 in Asia-Pacific regions
- Financing of investments amounted to US$32.7 million
- As of June 30, 2014 the net debt of the Company amounted to US$490.7 million, including the long-term debt consisting mainly of 7.75% Eurobonds totaling in US$397 million and 4.7% intra group loan from EVRAZ in the amount of US$96 million

Sergey Stepanov, General Director of Raspadskaya Coal Company says:

«Despite the general decline in the number of accidents from 25 to 14, there were two fatalities at Raspadskaya mine. A new HSE Director was appointed in order to improve the situation and a new action plan is in place. I'm happy to note that the Company was able to reduce LTIFR rate from 4.44 in 1H2013 to 2.07 in 1H2014.

From the production point of view, recovery of production in Raspadskaya mine is the key achievement. Three longwalls are currently in operation. The fourth longwall is expected to be launched in Q3 2014. The overall delay with the fourth longwall is due to a delay with transfer of JOY-3 roof support to 5a-7-28bis longwall attributable to complex geology. Thus, we have established a solid foundation for further extension of production in Q4 2014 and throughout the year 2015».

Raspadskaya
Management's discussion and analysis
of financial condition and results of operations
for the first half of 2014

This discussion and analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements of Raspadskaya for the six months ended 30 June 2014, prepared in accordance with the requirements of International Financial Reporting Standards.

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.

We are a group of integrated companies that specialises in the production and sale of coking coal, with leading positions in the Russian coal market. The Group is located in the town of Mezhdurechensk in the Kemerovo region of Russia and includes four operating mining enterprises (Raspadskaya, MUK-96 and Raspadskaya-Koksovaya underground mines and Razrez Raspadsky open pit), a preparation plant, companies engaged in infrastructure development and transportation, a trading company and a managing company.

On 16 January 2013, Raspadskaya became a subsidiary of EVRAZ plc, an international integrated mining and metallurgical company.

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Contents

Mineral reserves and resources

As part of the consolidation process of Raspadskaya into the EVRAZ group, the reserves and resources have been evaluated as of 1 July 2013; and the evaluation has confirmed our previous estimates of the volume of reserves, which exceed 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 level of reserves and resources allows us to mine coking coal at our companies for more than 90 years.

The volumes of our coking coal reserves and resources as of 1 July 2013 under the report of IMC Montan prepared in accordance with the requirements of JORC, are set out in the following table:

	Reserves	Resources
	Mt	
Semi-hard coking coal	1,175	1,573
Hard coking coal	190	427
	1,365	**1,999**

Semi-hard coking coal includes coal of GZh (gas fat), Zh (fat), and GZhO (gas fat semi-lean) grades under the Russian classification. Hard coking coal includes coal of 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, whilst the other mines only extract semi-hard coal.

We have mined 8.3 Mt of coal since the last reserves evaluation.

Key factors and risks affecting the results of our business activity

The principal risks and uncertainties affecting Raspadskaya were set out in detail under the heading "Key factors and risks affecting the results of our business activity" of the report "Management's discussion and analysis of financial condition and results of operations for 2013". The majority of principal risks of the Company are unchanged from those identified in the above mentioned report but we provide the following update on those risks which impacted the Company during the Period and which we expect to be most significant for the rest of the year:

Global economic factors, industry conditions and cost effectiveness

Raspadskaya operations are highly dependent and sensitive to the global macroeconomic environment, economic and industry conditions, e.g. global supply/demand balance for steel and particularly for coking coal which has the potential to significantly affect both product prices and volumes across all markets.

As Raspadskaya's operations have a high level of fixed costs, global economic and industry conditions can impact the Company's operational performance and liquidity. Liquidity risk management with related reduction in availability finance brings a risk of insufficient capital investment for long-term sustainability of the Company.

Raspadskaya has a focused investment policy aimed at reducing and managing the cost base with the objective of increasing in cost effectiveness. Raspadskaya has been implementing a plan to increase production at its mines, including at the Raspadskaya mine where production is being gradually restored after the accident in 2010.

Health, safety and environmental (HSE) issues

Safety and environmental risks are inherent to the Company's principal business activity. Further, Raspadskaya operations are subject to a wide range of HSE laws, regulations and standards, the breach of any of which may result in fines, penalties, suspension of production, or other sanctions. Such actions could have a material adverse effect on the Company's business, financial condition and business prospects.
HSE issues have direct oversight at Board level and HSE procedures and material issues are given top priority at all internal management level meetings. Management KPIs include a material factor for safety performance. The company has instigated a program to improve the management of safety risks with the objective of embedding a new safety, harm-free culture at all management and operational levels. The Company continues to focus on

standardization of Critical safety programs with a main focus in 2014 to implement energy isolation program or Lockout Tryout (LOTO). The Company has introduced a program of Behavior Safety Observations to drive a more proactive approach to preventing injuries and incidents. Safety training has been reviewed and strengthened and an operational safety assessment is undertaken for all new projects.

Dependency on certain key markets

The Company's profitability is highly dependent on limited geographical markets, i.e. 58% of its revenues are derived from Russia, and 35% from the Asia-Pacific region in 1H2014. The strategic risks and opportunities within these regions are regularly reviewed, including consideration of the quality and nature of the Company's product portfolio, relative cost effectiveness, and the sustainability of market positioning together with effective distribution networks.

The Company's product portfolio development and its production and distribution strategies are focused on leveraging leading market positions within the coking coal market.

Capital projects and expenditure

The Company's maintenance and development capital expenditure, in addition to capital expenditure focused on improving the Company's cost effectiveness, is aligned to the Company's and external market expectations for each particular project and to maximize levels of investment returns.

Economic issues outside those factored into the Company's business plans including regulatory approvals, may negatively impact the Company's anticipated free cash flow and cause certain elements of the planned capital expenditure to be re-phased, deferred or abandoned with consequential impact on the Company's planned future performance.

The Company has revisited key assumptions of the main investment projects and performed scenario analysis, which resulted in the suspension and/or postponement of certain projects.

Project delivery is closely monitored against project plans resulting in high level action to manage project investment both for timely delivery and for planned project expenditure. All projects are managed by an experienced project team.

Human Resources

The principal HR risk is the quality and availability of critical operational and business skills of Raspadskaya management and employees, e.g. mining professionals including engineers, mining experts and project managers. Associated risks involve selection, recruitment, training and retention of employees and qualified executives.
Union relations are largely stable.

As a result of HR risks, the Company's growth plans might be jeopardised. Succession planning is a key feature of the Company's human resources management. The succession program has been fed by key operational / functional level management. The company has invested substantial resource in training, internal mentoring, and development of pool of successors.

Program of development of project managers had been commenced in 2012 and aims to mitigate the risk of lack of project management skills. The purpose of this program is more effective and efficient project management. In addition the program is also oriented on enhancing of quality of the Company's internal technical expertise.

The Company experiences low personnel turnover. Raspadskaya seeks to meet its leadership and skill needs through retention of its employees, internal promotion, structured professional internal mentoring and external development programs.

Potential Actions by Governments

Raspadskaya operates in Russia and there is a risk that the Russian government or government agencies could adopt new laws and regulations, or otherwise impact the Company's operations. New laws, regulations or other requirements could have the effect of limiting the Company's ability to obtain financing in international markets, or selling its products.

To date the Company has not been significantly impacted by recent geopolitical developments relating to Ukraine. There is a risk, however, that if these events were to escalate, there could be an impact on the Company's operations in the country. Raspadskaya generates approximately 7% of its revenue from its shipments of coal to Ukraine.

In addition, Raspadskaya may be affected by government sanctions against Russian business if they are broadened from the current level causing capital market risk. The Company has diligently taken international legal advice in order to assess the risk of consequences from sanctions and develop respective mitigating measures.

Although all these risks are mostly not within the Company's control, Raspadskaya and its executive team are members of various national industry bodies and, as a result, contribute to the thinking of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities.

Business interruption

Prolonged outages or production delays could have a material adverse effect on the Company's operating performance, production, financial condition and future prospects. In addition, long term business interruption may result in loss of customers, competitive advantage being compromised and damage to the Company's reputation. To mitigate such risks the Company has defined and established business continuity plans, procedures and protocols which are subject to regular review and audit of their appropriateness and effectiveness.

The Company carries certain business interruption insurance, except for particular mining events. Business interruptions in mining mainly relate to production safety. Measures to mitigate these risks include methane monitoring and degasing systems, timely mining equipment maintenance, employee safety training.

In 2013 the Company had to suspend mining works at the Raspadskaya underground mine for 3 months due to increased levels of carbon monoxide. A set of safety measures was undertaken in order to alleviate the causes of hazards.

Treasury

Raspadskaya faces various treasury risks including liquidity, credit access, currency fluctuations, interest rate, and tax compliance risks. In addition, and as mentioned above, potential actions by Governments, including economic sanctions impacting Russian entities, may increase the Company's Capital Market risk in respect of new funding issues.

After consolidation by EVRAZ, Raspadskaya has more opportunities to obtain external financing and at lower cost, as well as being able to rely on the support of EVRAZ in case of urgent financing needs.

EVRAZ employs skilled specialists to manage and mitigate such risks across all the companies within the EVRAZ group and the management of such risks is embedded in its established management internal controls. Oversight of the key liquidity risk is reported within the monthly Board reports of EVRAZ and Raspadskaya and through the review of covenant compliance with such internal controls by an internal audit function, which reports to Raspadskaya's Audit Committee members.

Liquidity risk is managed through revisiting of capital expenditures and cost optimization programs.

Exchange rates

A key factor of changes in the US Dollar/Russian Rouble exchange rate should be taken in account when reviewing this discussion and analysis. Our performance may be significantly affected by these changes. Our functional currency is the Russian Rouble, and our assets, revenues and expenses are denominated mostly in Roubles whereas the presentational currency of our financial statements is the US dollar.

Some exchange rates used in preparation of our consolidated financial information are presented in the following table:

	1H2014	1H2013	Change
Average exchange rate, RUB/USD	34.9796	31.0169	*13%*
	30/06/14	**31/12/13**	
Exchange rate, RUB/USD	33.6306	32.7292	*3%*

Production capacity

The production capacity of our mines is a factor that sets an upper limit to our production volumes and, consequently, sales volumes. Many factors influence our production capacity, including equipment capacity and mining conditions. Some mining conditions may lead to substantial failures in the production process. However, we successfully continue to realize the production capacity recovery program for the Raspadskaya underground mine. After the launch of longwall 4-9-23 in December 2013 we managed to successfully launch two more new longwalls in the first half of 2014. Thus, on 19 March 2014 we launched a second longwall 4-7-27 with reserves of 1,506,000 tonnes, on 18 June 2014 a third longwall 5a-10-18 was commissioned. The longwall reserves of GZh coal equal to 428,000 tonnes.

In 3Q 2014 we plans to launch a longwall 5a-7-28bis with reserves of 2,700,000 tonnes, by doing so we will fulfille the 2014 plan for launching new longwalls at the Raspadskaya underground mine. Shift of launch period for fourth longwall is due to the increase in the remounting time of support units JOY-3 in the longwall 5a 7-28bis due to difficult geological conditions. Thus, in the 4Q2014 the Raspadskaya underground mine will operate on four longwalls and will come back for the first time to the production level it used to have before the incident in 2010.

Our business activity depends on our ability to maintain a stable production level. Therefore, the availability and development of mineral reserves, the level of maintenance of mining equipment and overall facilities, as well as ensuring safe working conditions, significantly affect the results of our activity.

Supply and demand for coking coal

The operating and financial results of our activity depend significantly on the balance of supply and demand for coking coal within domestic and international markets. This balance determines prices for coking coal, affects sales volumes, and is primarily driven by fluctuations in steel and coke production volumes, by changes in coal production capacities and other related factors, which are in turn dependent on domestic and global macroeconomic conditions.

Our end consumers are large domestic and foreign steel and coke producers. Our activity is therefore influenced by Russian and international steel markets. At present, we are giving priority to domestic sales, and hence fluctuations of demand for coking coal in the domestic market have a significant impact on us.

Another important factor that influences the long-term balance of supply and demand is the gradual implementation and increased use of pulverized coal injection (PCI) in the steel making process. This technology allows for a reduces coke rate in blast furnaces, as a result, consumption of coking coal used for making coke is reduced.

A factor on the supply side is certainly activities of our competitors. Taking into account the current situation in the market we believe that there will be no significant increase in coking coal capacity in Russia in the short- to medium-term. The announced plans to commission new capacities have been postponed or suspended by many subsoil users because they require substantial capital investment. The projects that are in the final stage of development partially compensate the retired capacities.

We intend to maintain our competitiveness primarily thanks to our positions in the lower part of the cost curve, an optimal price to quality ratio, long-term contracts with customers, and development of customer relations.

Prices of coking coal

Both domestic and export prices for coking coal have a material impact on revenue and therefore on the financial results of our operating activity.

Coking coal is either sold 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 with a variety of qualities. Current market prices for various coal grades and the coal quality are the major criteria for customers before deciding if the price is reasonable. Our selling prices are within regional market trends.

We set prices for a part of export sales using international benchmarks - the price is based on the price of hard coking coal concentrate on the basis of FOB Australia (US$ 143.2 per tonne, US$120.0 per tonne, US$120.0 per tonne, in 1Q14, 2Q14, and 3Q14 respectively), less discount for the quality of our semi-hard coking coal concentrate or Australian semi-hard coking coal of the similar quality.

In 2013 and the first half of 2014, we cooperated with our major Russian customers within the framework of long-term contracts and adjusted volume and prices on the quarterly basis. Our contract prices are set in roubles for domestic sales, and in US dollars for export sales. Our export prices differ depending on markets, and are impacted, among other things, by the duration of our presence in the market, as well as by the duration of cooperation with the customer which is reflected both in the format of the contract and pricing (quarterly prices or spot prices).

In 2013 and in the first half of 2014, all domestic sales and the bulk of sales to Ukraine were made under FCA Mezhdurechensk delivery terms. Other terms we used were FOB, CFR, CPT and DAF. Except for FCA, the transportation and other related costs are included in the contract price.

The weighted average prices of our coal concentrate rebased to common delivery terms (FCA Mezhdurechensk) are set out in the following table:

	1H2014	**1H2013**	**Change**
	US Dollar per 1 t		
Russia	72,2	97,7	(26)%
Europe	56,3	64,3	(13)%
Asia-Pacific	50,4	60,4	(17)%

In 2013 and in the first half of 2014, the downward price trend was caused by demand - supply imbalance in international and Russian coking coal markets, in particular due to the effect of the Chinese market on international commodity markets and due to the increase in the number of spot contracts in the world trade.

The fact that our export prices rebased to FCA Mezhdurechensk were, as a rule, lower than the domestic prices is to largely explained by international competition and by distance to customers, which have a considerable effect on our selling prices. The bottom line is customers have to pay transportation costs whether they are included in the contract price or not. When the distance is large, the transport costs are also large - this is the case as far as sales to Ukraine and Asia are concerned. Under conditions of weak demand (a buyer's market), in order to maintain competitiveness, when setting the price we have to take into consideration the distance to market, cost of transport, and availability of coal from other countries.

One more factor that indirectly influenced the level of export prices was that we continued to pursue our strategy focused on strengthening our presence as in the Asia-Pacific market, primarily in Japan and South Korea and to expand our client base in these countries, as in the Europe market.

Sales volumes

Quarterly sales volumes of our coal concentrate are set out in the following table:

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
		t000				
Russia	898	719	786	567	618	780
QoQ change	*(17)%*	*(20)%*	*9%*	*(28)%*	*9%*	*26%*
Europe	193	135	162	92	100	119
QoQ change	*(5)%*	*(30)%*	*20%*	*(44)%*	*9%*	*18%*
Asia-Pacific	306	472	415	390	357	758
QoQ change	*244%*	*54%*	*(12)%*	*(6)%*	*(8)%*	*112%*
Export, total	499	607	577	482	457	877
Total	**1,397**	**1,326**	**1,363**	**1,049**	**1,075**	**1,657**
QoQ change	***2%***	***(5)%***	***3%***	***(23)%***	***3%***	***54%***

Sales volumes of our coal concentrate and raw coal by destinations are set out in the following table:

	1H2014		1H2013				1H2014	1H2013
	Volume	Portion	Volume	Portion	Change		Amount	Amount
	t000		*t000*		*t000*		*US$000*	*US$000*
Coal concentrate - Russia	**1,398**	***51%***	*1,617*	*59%*	(219)	*(14)%*	104,977	157,997
including to EVRAZ	**91**	***3%***	77	*3%*	14	*18%*	8,126	**7,753**
Coal concentrate - export								
Europe	**219**	***8%***	328	***12%***	(109)	*(33)%*	12,338	23,113
including to EVRAZ	**188**	***7%***	328	*12%*	(140)	*(43)%*	10,607	**23,113**
Asia-Pacific	**1,115**	***41%***	778	***29%***	337	*43%*	89,960	98,497
	1,334	***49%***	1,106	*41%*	228	*21%*	**102,298**	**121,610**
Coal concentrate - total	**2,732**	***100%***	2,723	*100%*	10	*0%*	**207,275**	**279,607**
Raw coal - Russia	**594**		287		307	*107%*	33,007(1)	16,319(1)
including to EVRAZ	**568**	***96%***	287	*100%*	281	*98%*	31,828	16,319
Coal concentrate and raw coal	**3,326**		3,010		316	*10%*	**240,282**	**295,926**

(1) Excluding sales of associated coal

In the first half of 2014, the share of coal products delivered to EVRAZ's plants amounted to 26% of the total coal product sales. Sales volumes increased from 692,000 tonnes in the first half of 2013 up to 847,000 tonnes in the first half of 2014, mainly due to an increase of raw coal shipments.

Raw coal accounted for a significant proportion of the total sales volume of our coal products - 18% and 10% in the first half of 2014 and in the first half of 2013 respectively. Raw coal shipments to EVRAZ plants were under long-term contracts.

Due to contraction of demand in the Russian market, in order to maintain our sales volumes, we had to redirect our sales towards export; in the first half of 2014 we increased the share of exports in the total concentrate sales volumes to 49%. Consequently, sales volumes of concentrate in the domestic market decreased by 14% in in the first half of 2014 compared to the first half of 2013, in addition we increased shipments to EVRAZ assets by 18% compared to the same period last year.

During the period under consideration we managed to increase sales volumes in the countries of the Asia-Pacific region - from 29% of our total sales volumes of concentrate in the first half of 2013 up to 41% in the first half of 2014 due to expansion of our client base in the region, in particular in Japan and South Korea.

In addition, in order to expand our customer base and promotion of our products on export markets, we have conducted part of export sales of our concentrate through the East Metals AG (EMAG) trading company, Switzerland, which is part of EVRAZ group. The contract with EMAG was signed on market terms. Sales through EMAG allowed us to reduce inventories by about US$13 million and to reduce need for working capital due to the reduction of railroad costs and freight-forwarding support (freight).

Expansion of exports has allowed us to reduce per tonne cost of production and to utilize our production capacity more efficiently. Despite the recent negative trends in the Asian markets, especially in the Chinese market, we intend to continue working actively in the region, in particular expanding our presence and establishing long-term relations with South Korean and Japanese customers.

In addition, the total sales volume of coal concentrate has virtually not changed compared to the same period of the last year and amounted to 2.7 Mt. The main reason that caused no growth in coal concentrate sales in the first half of 2014 was an increase in raw coal sales portion and concentrate yield reduction due to high ash content in the mined seams that was offset in the second quarter thanks to production growth from longwall faces.

Revenue

The components of our revenue are set forth in the Table below:

	1H2014		**1H2013**			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
			US$000			
Coal concentrate – Russia	**104,977**	***51%***	157,997	*65%*	(53,020)	*(34)%*
Coal concentrate – export	**68,577**	***33%***	68,111	*28%*	466	*1%*
	173,554	***84%***	226,108	*93%*	(52,554)	*(23)%*
Raw coal – Russia (1)	**33,007**	***16%***	16,319	*7%*	16,688	*102%*
	206,561	***100%***	242,427	*100%*	(35,866)	*(15)%*
Transportation costs in sales price (2)	**33,721**		53,498		(19,777)	*(37)%*
Sales of other goods	**961**		-		961	n/a
Rendering of services	**3,569**		5,072		(1,503)	*(30)%*
Revenue	**244,812**		300,997		(56,185)	*(19)%*

(1) Excluding sales of associated coal in the amount of 22 th. tonnes and 38 th. tonnes in the 1H2014 and 1H2013 respectively.
(2) Consists of railroad costs, handling and other services in ports and freight support that are included in the selling price of our coal concentrate under delivery terms other than FCA Mezhdurechensk

The revenue from the sale of coal products rebased to common delivery terms (FCA Mezhdurechensk), decreased in the 1H2014 by US$35.9 million or by 15% vs. the 1H2013 due to the 24% decrease in FCA price while the sales volumes increase by 10%.

Significant decrease of transport component in the selling price (from US$53.5 million to US$33.7 million) driven by changeover from CFR and FOB sales to FCA.

We sell other goods and render services only within Russia. Rendering of services mainly includes coal transportation services provided locally to other coal companies in the area.

Thus, taking into account the decrease in revenue from coal sales (FCA) and the decrease of the transportation component the total revenue reduced by 19% vs. 1H2013.

Production volumes

Our production volumes are dependent on demand and are restricted by production capacity.

We prepare all semi-hard coking coals and sell them in the form of concentrate, while hard coking coals are sold mainly as raw coal.

The production volumes of our coal products are set out in the following table:

	1H2014	**1H2013**	**Change**	
		t000		
Raw coal extraction	**4,427**	3,961	466	*12%*
Raw coal preparation	**3,927**	3,927	0	*0%*
Coal concentrate production	**2,627**	2,810	(183)	*(7)%*
Concentrate yield	**66.9%**	*71.6%*		

We increased raw coal mining by 12%, including an increase in production by 121% or by 379,000 tonnes at the Raspadskaya-Koksovaya mine and an increase in production in the Raspadskaya underground mine by 50% or by 555,000 tonnes due to successful realization of the mine recovery program and launching three new longwalls. In addition, in the period under consideration production at the MUK-96 mine decreased by 43% or by 255,000 tonnes because of extension in longwall time relocation from longwall 5-15-22(2) to longwall 5-15-24(1) due to development of preparation roadways in the geological fault zone, as well as in the Razrez Raspadsky open pit by 11% or by 214,000 tonnes because of reduction of coal reserves ready for extraction.

Concentrate production decreased by 7% due to concentrate yield reduction by 4.7 percentage point. Reduction in concentrate output was mainly due to the increase in the ash content of extracted coal caused by the increased production from preparation works. The plan is to offset the increase in ash content of the mined coal by longwall production growth in the Raspadskaya underground mine.

Also, improvements that we are introducing at the coal preparation plant will allow to increase the quality of concentrate which in turn will let us sell it at a higher price. These improvements include: purchasing and installation of equipment for fine high-ash fraction removal and exclusion of GZhO concentrate from blend concentrates.

The coal stocks are set out in the following table:

	30/06/14	**31/12/13**	**Change**	
		t000		
Raw coal	174	272	(98)	*(36)%*
Coal concentrate (including concentrate at ports)	71	202	(131)	*(65)%*

The reduction in stocks of coal concentrate is driven by the shipments of concentrate for export to South-East Asia.

Cost of production and cost of sales

Production level is an important determinant in our cost competitiveness, since a substantial portion of our costs are fixed costs, as is typical for the mining industry. Growth of production volumes helps reduce the production cost per tonne of coal.

The key components of our cash cost of production are set forth in the Table below:

	1H2014	1H2013	Change	
		US$000		
Cash cost of extraction of coal	151,074	149,655	1,419	*1%*
Cash cost of preparation	**12,109**	11,188	921	*8%*
Cash cost of production transportation of coal concentrate	**2,046**	2,083	(37)	*(2)%*
Cash cost of production	**165 228**	162,926	2 302	*1%*
		US$		
Cash cost of extraction per 1 tonne of coal	**34.1**	37.8	(4)	*(10)%*

Cash cost of extraction per 1 tonne of coal reduced by 10% in the 1H2014 vs. 1H2013 as a result of the increase in coal production.

The estimated cash cost of our coal concentrate is set forth in the Table below:

	1H2014	1H2013	Change	
		US$000		
Estimated cash cost of coal used in concentrate preparation (1)	**132,537**	139,047	(6,510)	*(5)%*
Cash cost of preparation	**12,109**	11,188	921	*8%*
Cash cost of production transportation of coal concentrate	**2,046**	2,083	(37)	*(2)%*
Estimated cash cost of coal concentrate	**146,691**	152,318	(5,627)	*(4)%*
		US$		
Cash cost of 1 tonne of coal used in concentrate preparation	**33.8**	35.4	(1.6)	*(5)%*
Cash cost of preparation of 1 tonne of coal used	**3.1**	2.8	0.3	*11%*
Cash cost of production transportation of 1 tonne of coal concentrate(2)	**0.8**	0.7	0.1	*14%*
Estimated cash cost of 1 tonne of coal concentrate (2)	**55.8**	54.2	1.6	*3%*

(1) The estimated cash cost of coal used in concentrate preparation is calculated by multiplying the volume of coal used in concentrate preparation by cash cost of 1 tonne of coal intended for preparation;
(2) The raw coal has been recalculated in tonnes of coal concentrate at the ratio of 66.9% and 71.6% for the 1H2014 and 1H2013 respectively.

The estimated cash cost of 1 tonne of coal concentrate in the 1H2014 increased by 3% vs. 1H2013 mainly due to increase in ash content of raw coal used for concentrate preparation.

A breakdown of our cash cost of production and cost of sales is set forth in the Table below:

	1H2014		1H2013			
	Amount	Portion	Amount	Portion	Change	
			US$000			
Payroll	**54,857**	***27%***	48,196	23%	6,661	*14%*
Payroll taxes	**23,505**	***11%***	20,848	10%	2,657	*13%*
Other taxes	**(103)**	***0%***	9,747	*5%*	(9,850)	*(101)%*
Materials	**53,621**	***26%***	58,852	*28%*	(5,231)	*(9)%*
Electricity	**9,073**	***4%***	8,077	*4%*	996	*12%*
Other costs and expenses	**24,275**	***12%***	18,527	*9%*	5,748	*31%*
Cash cost of production	**165,228**	***80%***	164,247	*78%*	981	*1%*
Depreciation, depletion (excluding mining assets) and amortization	**30,909**	***15%***	33,212	*16%*	(2,303)	*(7)%*
Depletion of mining assets	**9,971**	***5%***	12,861	*6%*	(2,890)	*(22)%*
Cost of production	**206,108**	***100%***	210,320	*100%*	(4,212)	*(2)%*
Transportation	**26,899**		25,471		1,428	*6%*
Cost of resold goods	**9**		646		(637)	*(99)%*
Finished goods flow	**13,172**		7,884		5,288	*67%*
Cost of sales	**246,188**		244,321		1,867	*1%*

Payroll and payroll taxes

Payroll including payroll taxes constitutes the largest item of our production cash costs. The payroll increased by 14% in the 1H2014 vs. 1H2013. Whereas the payroll taxes increased by 13% vs. the results of the 1H2013. The increase was caused by increase in average salaries by 7.5% and by 1% increase in headcount.

Payroll taxes consist of regular mandatory contributions to Russia's Pension Fund, contributions to medical insurance funds, and mandatory industrial accident and occupational disease insurance charges. We have no legal or other obligations in relation to further payments to state funds.

The information about our overall staff costs and headcount is set forth in the Table below:

	1H2014	1H2013	Change	
		US$000		
Payroll in the cost of production	**54,857**	48,196	6,661	*14%*
Payroll in the general and administrative costs	**13,001**	13,004	(3)	*0%*
Payroll in other operating expenses	**221**	5,392	(5,171)	(96)%
Capitalized payroll	**1,964**	3,963	(1,999)	*(50)%*
Total payroll	**70,043**	70,555	(513)	*(1)%*
Total payroll taxes	**28,438**	29,164	(726)	*(2)%*
Effective payroll tax rate	***41%***	*41%*		
Average total number of employees	**8,286**	8,205	81	*1%*

Average total number of employees in the 1H2014 increased by 1% vs.1H2013; the total payroll did not change significantly and remained at the level of the 1H2013.

Payroll in other expenses decreased by 96% in the 1H2014 as the wages of Raspadskaya underground mine employees were charged to other expenses during mine's suspension in May-July 2013.

Taxes

Main taxes included in production costs consist primarily of the mineral extraction tax (MET). The 101% decrease in the MET in the 1H2014 vs.1H2013 was mainly due to the recalculation of tax for previous periods, as well as due to reduction of the effective rate by 33% alongside with a 12% increase in extraction.

Materials and electricity

The decrease in material cost in the 1H2014 vs. 1H2013 amounted to 9%. Excluding the influence of US$ exchange rate, increase in costs of materials amounted to 3% due to the increase in production and stripping while volume of development workings were reduced. A 15% growth in energy costs in the 1H2014 vs. 1H2013 was due to 12% tariff growth.

Other costs and expenses

Other costs and expenses increased by 31% in the 1H2014 compared with 1H2013 due to increased expenditure related to environmental, equipment maintenance, drilling of indicator wells.

Depreciation, amortization and depletion of mining assets

Depreciation, amortization and depletion of mining assets comprises a significant portion of our cost of production – 20% and 22% in the 1H2014 and 1H2013 respectively.

Reduced depreciation in the production costs in the 1H2014 by 7% vs 1H2013 was mainly due to revised remaining useful lives of items of property plant and equipment. If previous useful lives continued to be used in 1H 2014 the depreciation, depletion and amortization would be US$5 million higher.

22% decrease in depletion of the mining assets in the 1H2014 vs. 1H2013 was due to the revision of the reserves, production plans and future investments in accordance with the assessment of reserves by IMC, as well as to increase in production.

Transportation costs

Transport costs consist of costs included in the selling price, which we incur before the right of ownership to our coal products is transferred to the buyer and represent railroad costs, handling and other services in ports under FOB and CFR terms.

In the 1H2014 the transportation costs were increased by US$1.4 million or 6% due to an increase in FOB shipments.

Fluctuations in railroad tariffs affect the total cost of coal paid by customers and may therefore indirectly impact the demand for our coal from customers located far from the production site. In the 1H2014, railroad tariffs remained at the level of 1H2013.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist of railroad costs and freight-forwarding support (freight) that we incur after the right of ownership is transferred to the buyer under CPT and CFR terms. These costs are included in revenue from sales of coal products and amounted to US$6.8 and US$28.0 million in the 1H2014 and 1H2013 respectively.

In addition, selling and distribution costs include customs fees imposed during export sales, insurance and other services.

The overall decrease of selling and distribution costs by US$16.9 million in the 1H2014 vs. 1H2013 was due to a termination of export sales under CPT and CFR terms.

General and administrative expenses

The breakdown of our general and administration expenses is provided in the Table below:

	1H2014		1H2013		Change	
	Amount	Portion	Amount	Portion		
			US$000			
Payroll	**13,001**	***46%***	13,004	*43%*	(3)	*0%*
Payroll taxes	**3,945**	***14%***	4,090	*13%*	(145)	*(4)%*
Other taxes	**4,145**	***15%***	4,500	*15%*	(355)	*(8)%*
Materials	**669**	***2%***	761	*2%*	(92)	*(12)%*
Other costs and expenses	**6,255**	***22%***	6,751	*22%*	(496)	*(7)%*
Depreciation and amortization	**160**	***1%***	1,479	*5%*	(1,319)	*(89)%*
	28,175	***100%***	30,585	*100%*	(2,410)	*(8)%*

Our general and administrative expenses decreased by 8%.

Payroll including payroll taxes makes up the most material part of our general and administrative expenses and accounts for 60% of the total costs.

Taxes mainly consist of property tax. The tax reduction is attributable to changes in the tax base.

There was a decrease in other expenses in item “Information and advisory services”.

A significant decrease in depreciation was due to revised remaining useful lives of items of property plant and equipment.

Social expenses

As is the case with many large Russian production companies, we have certain social expenses, consisting of charitable donations and costs for the maintenance of social sphere infrastructure. Our social expenses decreased in the following items: “Charity” and “Sponsorship”.

Loss on disposal of fixed assets

The profit or loss arising from the disposal (deregistration) of fixed assets items is determined as the difference between the net disposal proceeds (if there are any) and the carrying amount of the respective items.

Foreign exchange differences

Foreign exchange differences, whether positive or negative, arise from revaluation of assets and liabilities in foreign currencies (primarily US dollars) and exchange of foreign currencies.

In the 1H2014, foreign exchange losses amounted to US$12.9 million mainly on loans denominated in US dollars, as a result of the increase in the dollar exchange rate from 32.73 to 33.63, or by 3%.

Other operating income and expenses

Other operating income and expenses consist of atypical, non-recurring income and expenses. Other operating expenses were US$16.4 million higher in the 1H2014 than in 1H2013, mainly because the costs of US$24.0 million to maintain Raspadskaya mine during suspension of production in May-July 2013 were recognized as other operating expenses.

We continue the restoration of the Raspadskaya mine after the accident in May 2010. The restoration costs include compensatory social payments, costs to extinguish the fire and pump out the water, costs for design and repair works and the purchase of fixed assets. As of 30 July 2014, such costs amounted to US$210 million, US$187 million of which were included in other operating income and expenses (including US$4.3 million in the 1H2014).

Interest income and interest expense

Interest income mainly related to deposits held in Russian banks. The US$2.3 million decrease in interest income in the 1H2014 vs. 1H2013 was mainly due to the reduction of available cash.

In the 1H2014 and 1H2013 the majority of the interest expense was coupon payments on our Eurobonds. We pay semi-annually US$15.5 million on the 7.75% Eurobonds. In addition, we pay semi-annual interest on the loan, maturing on 31 July 2016, provided by EVRAZ in September 2013 in order to refinance the loan of Raiffeisenbank on more favourable market terms.

The decrease in interest expenses of US$3.6 million in the 1H2014 was due to a reduction in borrowings amount.

Income tax

Income tax in the 1H2014 represented the difference between the tax accrued in the amount of US$2.8 million and the change in the deferred income tax assets and liability in the amount of US$18.9 million. The main part of the change in the amount of the deferred income tax assets and liability was a tax benefit arising from the carry forward of losses from previous years against future taxable profit.

Adjusted EBITDA

Our adjusted EBITDA is calculated in the Table below:

	1H2014	**1H2013**	**Change**	
		US$000		
Loss for the period	**(67,396)**	(67,730)	334	*0%*
Adjusted for:				
Foreign exchange losses	**12,925**	33,993	(21,068)	*n/a*
Dividend income	**-**	(61)	61	*(100)%*
Interest income	**(419)**	(2,736)	2,317	*(85)%*
Interest expense	**19,620**	23,230	(3,610)	*(16)%*
Loss from disposal of PP&E	**1,376**	794	582	*73%*
Impairment	**893**	-	893	*n/a*
Income tax	**(16,038)**	(13,737)	(2,301)	*17%*
Adjusted EBIT	**(49,039)**	(26,247)	**(22,792)**	*87%*
Adjusted for:				
Depreciation, depletion and amortization	**44,649**	54,209	(9,560)	*(18)%*
Capitalized depreciation	**(3,928)**	(1,624)	(2,304)	*142%*
Adjusted EBITDA (1)	**(8,318)**	**26,338**	**(34,656)**	*(132)%*
EBITDA margin	*n/a*	***8.8%***		

(1) The calculation of EBITDA of Raspadskaya is adjusted to the methodology used by EVRAZ plc. In previous calculations of EBITDA Raspadskaya coal company did not take into account the changes in reserves (including changes in net employee benefit, change in bad debt allowance and in 2012-2013 litigation provision), which are considered by methodology of EVRAZ plc, but included a net loss from the disposal of property, plant and equipment, which is excluded from EBITDA calculation based on methodology of EVRAZ plc

The main negative factors which impacted adjusted EBITDA in 1H2014 were: reduced revenue and increased cost of sales.

The following positive factors impacted adjusted EBITDA in 1H2014 were: reduced selling costs due to shift of export sales to FCA terms, and also decreased other expenses. Deviation in other expenses is due to allocation of costs on the operation at the Raspadskaya mine during the suspension of production in May - July 2013 to this item. In 1H2014 these costs were accounted as production costs.

Reduced depreciation, depletion and amortization in the 1H2014 by 18% vs 1H2013 was mainly due to revised remaining useful lives of items of property plant and equipment. If previous useful lives continued to be used in 1H 2014 the depreciation, depletion and amortization would be US$5 million higher.

Indebtedness

Our indebtedness is calculated in the Table below:

	30/06/14	**31/12/13**	**Charge**	
		US$000		
Long-term loans	**491,966**	497,539	(5,573)	*(1)%*
Short-term loans and current portion of long-term loans	**7,199**	6,927	272	*4%*
Debt	**499,165**	504,466	(5,301)	*(1)%*
Less:				
Short-term bank deposits	**(297)**	**-**	(297)	*n/a*
Cash and cash equivalents	**(8,217)**	(5,656)	(2,561)	*45%*
	(8,514)	(5,656)	(2,858)	*51%*
Net debt	**490,651**	498,810	(8,159)	*(2)%*

As of 30 June 2014 the 7.75% Eurobonds in the amount of US$397 million and 4.7% intragroup loans from

EVRAZ group in the amount of US$96 million constituted the major part of our long-term debt.

As of the date of publication of the financial statements for 1H2014, we complied with all the covenants stipulated in the Group's loan agreements and are able to freely refinance our debt. However, we cannot increase the amount of the total debt by more than US$100 million until Consolidated Debt:EBITDA falls below 3x.

Liquidity

Our primary source of liquidity is cash generated from operating activities. Our policy is to finance our capital expenditure, and to pay out our interest expenses and dividends primarily from our operating cash flows.

Our cash flow statement is summarized in the Table below:

	1H2014	**1H2013**	**Change**	
		US$000		
Cash and cash equivalents as of beginning of period	**5,657**	7,731	(2,074)	*(27)%*
Net cash from operating activities	**58,177**	35,006	23,171	*66%*
Net cash used in investing activities	**(32,009)**	79,967	(111,976)	*(140)%*
Net cash used in financing activities	**(23,304)**	(21,197)	(2,107)	*10%*
Effect of foreign exchange rates on cash and cash equivalents	**(304)**	(1,463)	1,159	*(79)%*
Cash and cash equivalents as of end of period	**8,217**	100,044	(91,827)	*(92)%*

We intend to maintain a sufficient level of liquidity to continue our business activity in the changing economic environment.

Working capital

Our working capital is calculated in the Table below:

	30/06/14	**31/12/13**	**Change**	
		US$000		
Inventories	**40,603**	73,063	(32,460)	*(44)%*
Accounts receivable	**66,206**	61,346	4,860	*8%*
Prepayments made	**3,634**	9,345	(5,711)	*(61)%*
Taxes recoverable	**44,789**	30,271	14,518	*48%*
Less:				
Accounts payable	**(118,152)**	(75,650)	(42,502)	*56%*
Taxes payable	**(39,537)**	(23,448)	(16,089)	*69%*
Advances received	**(45)**	(54)	9	*(17)%*
Working capital	**(2,502)**	74,873	(77,376)	*(103)%*

Working capital decreased by US$77.4 million or 103%.

The main reason for the decrease in inventories was a significant shrinkage of finished goods in stock upon changeover to FCA export terms to replace CFR, CPT, FOB.

Accounts receivable increased by US$4.8 mainly due to increase in revenues in Q2 of 2014 vs. Q4 2013.

Taxes recoverable (mainly VAT) increased by US$14.5 million due to higher export sales.

Accounts payable increased by US$42.5 million due to changeover of purchasing railway tariff and partly materials from third-party supplier to EVRAZ with a longer deferred payment period.

Taxes payable increased by US$16.1 million due to increase in revenues in Q2 2014 compares with Q4 2013.

Capital expenditure

Our capital expenditure is set forth in the Table below:

	1H2014	1H2013		
	Amount	**Amount**	**Change**	
Financing of investments, US$000	**32,679**	35,631	(2,952)	*(8)%*
Financing of investments per 1 tonne of raw coal mined, US$	**7.4**	9.0	(1.6)	(18)%

Considering US$ exchange rate financing of capital investments in the 1H2014 remained at the level of 1H2013.

Off-balance sheet arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial conditions or the results of business activity.

Miscellaneous

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The current market and economic conditions create material uncertainty over the Group's short-term ability to generate sufficient cash to continue its operation and at the same time fulfill its investment plans. Management proactively addresses these concerns by taking necessary cost optimization measures, postponing certain investing projects and capital repairs, and negotiating additional financing. Management believes that in these conditions preparation of the financial statements on a going concern basis continues to be appropriate.