OAO Raspadskaya

Management's discussion and analysis
of financial condition and results of operations
for the six-month period ended 30 June 2013

This discussion and analysis should be read in conjunction with Raspadskaya's unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2013 prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The actual results could differ materially from those anticipated in the forward-looking statements under the influence of numerous factors.

We are a group of integrated companies that specializes in production and sales of coking coal and has leading market positions in Russia in the industry. The Group is located in Mezhdurechensk city in the Kemerovo region of Russia and includes four mines in operation (Raspadskaya, MUK-96 and Raspad-skaya-Koksovaya underground mines, and Razrez Raspadskiy open pit), a preparation plant, companies engaged in infrastructure development and transportation, a trading company and a managing company.

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

Overview of financial results

	1H13	1H12	Change	
	US$000	*US$000*	*US$000*	
Revenue	**300,673**	285,171	15,502	*5%*
Cost of sales	**(253,933)**	(211,529)	(42,404)	*20%*
Gross profit	**46,740**	73,642	(26,902)	*(37)%*
Gross profit margin	***16%***	*26%*		
Selling and distribution costs	**(18,490)**	(2,143)	(16,347)	*763%*
General and administrative expenses	**(30,585)**	(30,506)	(79)	*0%*
Social expenses	**(2,996)**	(4,314)	1,318	*(31)%*
Loss on disposal of PP&E	**(794)**	(1,155)	361	*(31)%*
Foreign exchange losses	**(33,993)**	(30,641)	(3,352)	*11%*
Other operating income	**2,873**	2,590	283	*11%*
Other operating expenses	**(23,789)**	(11,777)	(12,012)	*102%*
Operating loss	**(61,034)**	(4,304)	(56,730)	*1318%*
Dividend income	**61**	50	11	*22%*
Interest income	**2,736**	4,956	(2,220)	*(45)%*
Interest expense	**(23,230)**	(20,318)	(2,912)	*14%*
Loss before income tax	**(81,467)**	(19,616)	(61,851)	*315%*
Income tax	**13,737**	1,035	12,702	*1227%*
Loss for the period	**(67,730)**	(18,581)	(49,149)	*265%*
Loss per share, *¢*	**(9,7)**	(2,5)		
Adjusted EBIT	**(25,763)**	30,677	(56,440)	*n/a*
Adjusted EBITDA	**26,822**	98,899	(72,077)	*(73)%*
Adjusted EBITDA margin	***9%***	*35%*		
Capex	**43,291**	39,156	4,135	*11%*
	30/06/13	**31/12/12**		
Debt	**553,281**	553,678	(397)	*(0)%*
Net debt	**453,237**	433,258	19,979	*5%*

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Mineral reserves and resources

Volumes of our coking coal reserves and resources as at 1 January 2013, estimated by us in accordance with the requirements of the JORC Code are set out in the following table:

	Reserves	Resources
	Mt	*Mt*
Semi-hard coking coal	1,177	1,577
Hard coking coal	123	215
	1,300	**1,792**

The above resources do not include potential resources of 156 million tonnes of semi-hard coking coal and 194 million tonnes of hard coking coal.

Semi-hard coking coal includes coal of GZh (gas fat), Zh (fat), and GZhO (gas fat semi-lean) grades under 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 coals for coking. Raspadskaya-Koksovaya mine extracts only hard coking coal, the other mines – only semi-hard. At present, we prepare all semi-hard coking coal and sell it as coal concentrate, whereas we sell hard coking coal mainly as raw coal.

In 1H13, we extracted 4.0 million tonnes of coal.

Key factors affecting our results of operations

Our results of operations are affected by certain factors relating to our business and industry, as well as the political, economic and legal environment in Russia. The factors include, among others, exchange rates, production capacity, supply and demand of coking coal (and related prices and sales volumes), and production and other costs.

Exchange rates

In reading this discussion and analysis, an important factor of changes in the Russian ruble/US dollar exchange rate should be taken into consideration. Our performance may be significantly affected by these changes. Our functional currency is the Russian ruble, and our assets, revenues and expenses are denominated mostly in rubles whereas our presentation currency is the US dollar.

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

	1H13	1H12	Change
Average exchange rate, *RUB/US$*	31.0169	30.6390	*1%*
	30/06/13	**31/12/12**	
Exchange rate, *RUB/US$*	32.7090	30.3727	*8%*

Production capacity

Production capacity of our mines is a factor that sets an upper limit to our production volumes and, consequently, sales volumes. Many factors affect our production capacity, among which are equipment capacity and mining conditions. Some mining conditions may cause significant disruptions in production process.

Thus, from 6 May to 5 July 2013 Raspadskaya mine suspended extraction because of a high level of carbon monoxide at one of its sites. Although production capacity decreased as a result of the suspension, we were fulfilling all concentrate delivery contracts in full and in time. Sales volumes did not shrink mainly because of a relatively low demand – we increased production at the other mines and reduced coal stockpiles, and that was enough to compensate the missing capacity.

On 26 February 2013 a new face with coal reserves of about 1,370 thousand tonnes was launched at Raspadskaya-Koksovaya mine.

Our activities depend on our ability to maintain steady production levels. Therefore, the availability and development of mineral reserves, level of maintenance of mining equipment and overall facilities, as well as ensuring safe working conditions, affect significantly the results of our operations.

Supply and demand of coking coal

Our operating and financial results depend significantly on the balance of supply and demand of coking coal on domestic and international markets. The balance determines prices of coking coal, affects sales volumes, and is primarily driven by fluctuations in steel and coke production volumes, by changes in coal production capacity and other related factors, which are in turn driven by condition of the Russian and global economies.

Our end consumers are large domestic and foreign steel and coke producers. Our results are therefore influenced by situation in the Russian and international steel markets. At present, our priority sales are those within Russia, fluctuations of demand for coking coal in the domestic market have therefore a significant effect on us.

Another important factor that affects long-term balance of supply and demand is a gradual implementation and widening use of PCI method in steel making process. The method allows coking coal consumption to be reduced, and a lower quality coal to be used.

Since the end of 4Q11, demand in the international and Russian steel markets and therefore in the coking coal markets has been generally weakening. At present the negative tendency continues, though in 4Q12-1Q13 there were some signs of restoration that were reflected in our growing sales volumes.

Our results can be indirectly affected by increases in production capacities and sales volumes of our competitors. We believe that there will be no significant increase in the Russian coking coal capacity in the short- to medium-term, mainly due to the following factors: prevailing difficult geological and mining conditions that are likely to further aggravate as the mining is forced to go to deeper levels; and significant lead times and investments for production launch at green-field underground mines.

We intend to sustain our competitiveness based primarily on an optimal price/quality balance, long-term contracts with customers, and close attention to the interests of our present and potential clients.

Prices of coking coal

Both domestic and export prices of coking coal have a crucial impact on revenue and therefore results of our operations.

With the coking coal market, there is no accepted reference to posted prices and a very limited futures market outside of Europe. Coal is sold under term contracts or on the spot market, and the price of coal is set according to its coking characteristics because coking coal is a product with significant quality differentiations. Current market prices and coal quality are the major criteria for customers to consider before deciding if the price is reasonable. Our sales prices are in the frames of regional market trends of other producers and consumers of coal products.

We set prices for a part of export sales using international benchmarks – the price is based on the price of hard coking coal concentrate FOB Australia ($165 per tonne, $172 per tonne, and $145 per tonne in 1Q13, 2Q13, and 3Q13 respectively), less a discount of 10-12% for the quality of our semi-hard coking coal concentrate.

In 2013 and 2012, we cooperated with our major Russian customers in the frames of long-term contracts and adjusted volumes and prices mainly on the quarterly basis. Our contract prices are set in rubles for domestic sales, and in US dollars for export sales. Our export prices differ depending on markets, among other things taking into account our continuous presence and using quarterly contract prices, or entering new markets and using one-shot spot prices.

In 2013 and 2012, all domestic sales and the bulk of sales to Ukraine were made under FCA Mezhdurechensk delivery terms. Other terms we used were CFR, FOB, DAP and CPT. Except for FCA, transportation and other related costs are included in the contract price.

Weighted average prices of our coal concentrate restated under common delivery terms (FCA Mezhdurechensk) are set out in the following table:

	1H13	**1H12**	**Change**
	US$/t	*US$/t*	
Russia	**97.7**	122.1	*(20)%*
Ukraine	**64.3**	96.2	*(33)%*
Asia	**60.4**	100.5	*(40)%*

In 2012-13, the downward price trend was a consequence of a weakening demand in the international and Russian steel markets, among other things because of the effect China has had on international commodity markets.

The fact that our export prices restated under FCA Mezhdurechensk were, as a rule, lower than domestic prices is to a great extent explained by the factor of distance to customers, that has a considerable effect on our sales prices. In the end, it is the customer who pays transportation costs, no matter whether they are included in contract price or not. When the distance is large, the costs are also large – this is the case of sales in Ukraine and Asia. Therefore, especially when demand is weak (buyer's market), to determine the price, we must take the factor of distance into consideration (if there is coal from other countries) in order to maintain competitive prices and prevent losing sales volumes.

In addition, the following factors led to relatively low prices in Asia: significant volumes of spot sales that we made (taking into account the weak demand) to more actively enter Asia Pacific markets and expand our client base so that in future we could sign long-term contracts with prices linked to international benchmarks; a significant decrease in spot prices used by Chinese trade and metallurgical companies, following structural changes in the Chinese economy and metallurgical industry; and a shift of the whole international coal trade from benchmark prices to spot indexes.

Sales volumes

Since 4Q11 demand has been the main factor affecting our sales volumes.

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

	1Q12	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**
	t000	*t000*	*t000*	*t000*	*t000*	*t000*
Russia	864	866	778	1,080	898	719
QoQ change	*(8)%*	*0%*	*(10)%*	*39%*	*(17)%*	*(20)%*
Ukraine	71	116	159	203	193	135
QoQ change	*115%*	*63%*	*37%*	*28%*	*(5)%*	*(30)%*
Asia	–	88	44	89	306	472
QoQ change	–	*n/a*	*(50)%*	*102%*	*244%*	*54%*
Export	71	204	203	292	499	607
Total	**935**	**1,070**	**981**	**1,372**	**1,397**	**1,326**
QoQ change	***4%***	***14%***	***(8)%***	***40%***	***2%***	***(5)%***

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

	1H13		1H12			
	Volume	**Portion**	**Volume**	**Portion**	**Change**	
	t000		*t000*		*t000*	
Coal concentrate – Russia						
MMK	**609**	***22%***	531	*26%*	78	*15%*
Mechel	**382**	***14%***	189	*9%*	193	*102%*
Koks	**196**	***7%***	412	*21%*	(216)	*(52)%*
NLMK	**145**	***5%***	300	*15%*	(155)	*(52)%*
Metalloinvest	**87**	***3%***	63	*3%*	24	*38%*
Evraz	**77**	***3%***	115	*6%*	(38)	*(33)%*
Severstal	**73**	***3%***	38	*2%*	35	*92%*
Stroyservis	**48**	***2%***	82	*4%*	(34)	*(41)%*
	1,617	***59%***	1,730	*86%*	(113)	*(7)%*
Coal concentrate – export						
Ukraine (1)	**328**	***12%***	187	*10%*	141	*75%*
Asia	**778**	***29%***	88	*4%*	690	*784%*
	1,106	***41%***	275	*14%*	831	*302%*
Coal concentrate – total	**2,723**	***100%***	2,005	*100%*	718	*36%*
Raw coal – Russia (Evraz) (2)	**287**		327		(40)	*(12)%*
Coal concentrate and raw coal	**3,010**		2,332		678	*29%*

(1) Including sales to Evraz in the volume of 328 thousand tonnes in 1H13 and 139 thousand tonnes in 1H12;
(2) Including sales of coal from ancillary mining in the volume of 38 thousand tonnes in 1H13 and 64 thousand tonnes in 1H12.

The portion of coal products delivered to Evraz’s plants was 23% in 1H13, and sales volumes increased from 581 thousand tonnes in 1H12 to 692 thousand tonnes in 1H13, mainly due to an increase of sales volumes to Evraz’s plants in Ukraine.

Raw coal had a significant portion in total sales volume of our coal products – 10% and 14% in 1H13 and 1H12 respectively. All the raw coal was sold to Evraz under long-term contracts.

When demand in the Russian market set to decline, we, in order to keep up and increase sales volumes, had to reorient ourselves towards export – we increased the portion of export in total sales volumes of concentrate to 41% in 1H13. As a result, although our domestic sales volumes of concentrate decreased by 7% YoY, total sales volumes of concentrate grew by 36%.

The growth of sales volumes in Asia Pacific was especially significant – from 4% of our total sales volumes of concentrate in 1H12 to 29% in 1H13. Also, an important sign is a considerable expansion of our client base in the region – from 2 clients in 2 countries in 1H12 to 13 clients in 4 countries in 1H13, among the clients were steel companies that are on the list of the largest according to World Steel Dynamics.

The expansion of export has allowed us to reduce per tonne costs of production, and utilize our production capacity more efficiently. Despite the recent negative tendencies in Asian markets, especially in the Chinese market, we intend to continue to actively work in the region, among other things, at market expansion and forming long-term relationships with Korean and Japanese customers.

Revenue

Components of our revenue are set out in the following table:

	1H13		1H12			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Coal concentrate – Russia	**157,997**	***65%***	211,173	*78%*	(53,176)	*(25)%*
Coal concentrate – export	**68,111**	***28%***	26,926	*10%*	41,185	*153%*
	226,108	***93%***	238,099	*88%*	(11,991)	*(5)%*
Raw coal – Russia	**16,319**	***7%***	31,239	*12%*	(14,920)	*(48)%*
	242,427	***100%***	269,338	*100%*	(26,911)	*(10)%*
Transportation component in sales price [1]	**53,498**		8,863		44,635	*504%*
Sales of other goods	**778**		3,715		(2,937)	*(79)%*
Rendering of services	**3,970**		3,255		715	*22%*
Revenue	**300,673**		285,171		15,502	*5%*

(1) Consists of railroad costs, loading and other services in ports that are included in sales price of our coal concentrate under delivery terms other than FCA Mezhdurechensk.

Revenue grew by US$15.5m YoY mainly because sales volumes of coal products increased.

The significant increase of transportation component in sales price (from US$8.9m to US$53.5m) was due to the considerable growth of sales under terms other than FCA Mezhdurechensk, mainly in Asia.

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

Production volumes

Our production volumes are driven by demand and restricted by production capacity. At present, the production potential of our mines is being held back by the market conditions.

Production volumes of our raw coal and coal concentrate are set out in the following table:

	1H13	**1H12**	**Change**	
	t000	*t000*	*t000*	
Raw coal extraction	**3,961**	3,434	527	*15%*
Raw coal preparation	**3,927**	2,727	1,200	*44%*
Coal concentrate production	**2,810**	2,116	694	*33%*
Output ratio	***71.6%***	*77.6%*		

Output ratio decreased because of an increase in ash content of extracted coal by 4.1%, and a change in the structure of prepared coal.

Stockpiles of our coal products are set out in the following table:

	30/06/13	**31/12/12**	**Change**	
	t000	*t000*	*t000*	
Raw coal	**202**	458	(256)	*(56)%*
Coal concentrate (including concentrate at ports)	**189**	127	62	*49%*

Production volume is an important factor in determining our cost competitiveness because a substantial proportion of our costs are fixed costs which is typical for the extractive industries. An increase in production volumes contributes to a decrease in production cost per tonne of coal.

Cost of production and cost of sales

Competitiveness and long-term profitability of our business depend to a significant degree on our ability to maintain relatively low costs and achieve a high efficiency of our operations.

Major components of our cash cost of production are set out in the following table:

	1H13	**1H12**	**Change**	
	US$000	*US$000*	*US$000*	
Cash cost of extraction of coal	**149,655**	148,777	878	*1%*
Cash cost of preparation	**11,188**	8,610	2,578	*30%*
Cash cost of production transportation of coal concentrate	**2,083**	1,844	239	*13%*
Cash cost of production	**162,926**	159,231	3,695	*2%*
	US$	*US$*	*US$*	
Cash cost of extraction of 1t of coal	**37.8**	43.3	(5.5)	*(13)%*

Cash cost of extraction of 1t of coal decreased by 13% YoY, because extraction volumes increased.

Estimated cash cost of our coal concentrate is set out in the following table:

	1H13	**1H12**	**Change**	
	US$000	*US$000*	*US$000*	
Estimated cash cost of coal used in concentrate preparation (1)	**139,047**	120,741	18,306	*15%*
Cash cost of preparation	**11,188**	8,610	2,578	*30%*
Cash cost of production transportation of coal concentrate	**2,083**	1,844	239	*13%*
Estimated cash cost of coal concentrate	**152,318**	131,195	21,123	*16%*
	US$	*US$*	*US$*	
Cash cost of 1t of coal intended for preparation	**35.4**	44.3	(8.9)	*(20)%*
Cash cost of preparation of 1t of coal used	**2.8**	3.2	(0.4)	*(13)%*
Cash cost of production transportation of 1t of coal concentrate (2)	**0.7**	0.9	(0.2)	*(22)%*
Estimated cash cost of 1t of concentrate (2)	**54.2**	62.0	(7.8)	*(13)%*

(1) Estimated cash cost of coal used in concentrate preparation is calculated by multiplying volume of coal used in concentrate preparation by cash cost of 1t of coal intended for preparation;
(2) Raw coal has been restated in tonnes of coal concentrate at the output ratio of 71.6% and 77.6% for 1H13 and 1H12 respectively.

Estimated cash cost of 1t of coal concentrate decreased by 13% YoY, mainly because volumes of coal preparation increased.

A breakdown of our cost of production and cost of sales is set out in the following table:

	1H13		1H12			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Payroll	**47,121**	***23%***	49,943	*22%*	(2,822)	*(6)%*
Payroll taxes	**20,848**	***10%***	20,771	*9%*	77	*0%*
Other taxes	**9,747**	***5%***	11,671	*5%*	(1,924)	*(16)%*
Materials	**58,852**	***28%***	50,703	*23%*	8,149	*16%*
Electricity	**8,077**	***4%***	8,831	*4%*	(754)	*(9)%*
Other costs and expenses	**18,281**	***9%***	17,312	*8%*	969	*6%*
Cash cost of production	**162,926**	***79%***	159,231	*71%*	3,695	*2%*
Depreciation, depletion (excluding mineral reserve) and amortization	**42,107**	***19%***	48,094	*21%*	(5,987)	*(12)%*
Depletion of mineral reserve	**3,966**	***2%***	17,126	*8%*	(13,160)	*(77)%*
Cost of production	**208,999**	***100%***	224,451	*100%*	(15,452)	*(7)%*
Transportation costs	**36,404**		8,863		27,541	*311%*
Cost of resold goods	**646**		3,640		(2,994)	*(82)%*
Cost of rendering of services	**3,000**		2,752		248	*9%*
Change in finished goods	**4,884**		(28,177)		33,061	*n/a*
Cost of sales	**253,933**		211,529		42,404	*20%*

Payroll and payroll taxes

Payroll and payroll taxes constitute the largest item of our production cash costs – 42% and 44% in 1H13 and 1H12 respectively.

Production payroll decreased by 6% YoY, mainly because during the suspension of extraction at Raspadskaya mine, miners' payroll and payroll taxes were included in other operating expenses.

Payroll taxes consist of regular mandatory contributions to the Pension Fund of Russia, contributions to medical insurance funds, and mandatory industrial accident and occupational disease insurance charges. We have no legal or constructive obligation to pay further contributions in respect of the state benefits.

Information on our overall staff and related costs is summarized in the following table:

	1H13	1H12	Change	
	US$000	*US$000*	*US$000*	
Payroll in cost of production	**47,121**	49,943	(2,822)	*(6)%*
Payroll in general and administrative expenses	**13,004**	12,877	127	*1%*
Payroll in other expenses	**5,392**	1,907	3,485	*183%*
Capitalized payroll	**3,963**	1,352	2,611	*193%*
Total payroll	**69,480**	66,079	3,401	*5%*
Total payroll taxes	**29,164**	25,687	3,477	*14%*
Effective payroll tax rate	***42%***	*39%*		
Total average number of employees	**8,196**	8,356	(160)	*(2)%*

Total average number of employees decreased by 2% YoY; total payroll increased by 5% YoY, mainly because of indexation of wages.

Effective payroll tax rate increased YoY because starting 1 January 2013 additional payments on miners' pension insurance were introduced.

Other taxes

Other taxes included in production costs consist primarily of minerals extraction tax and land lease rental. Other taxes decreased by 16% YoY, mainly because during the suspension of extraction at Raspadskaya mine the taxes were included in other operating expenses.

Materials and electricity

Materials cost increased by 16% YoY, mainly because coal extraction and preparation volumes increased. Electricity cost did not materially change.

Other costs and expenses

Other costs and expenses did not materially change YoY.

Depreciation, depletion and amortization

Depreciation, depletion and amortization comprise a significant portion in our cost of production – 21% and 29% in 1H13 and 1H12 respectively.

Depreciation, depletion (excluding mineral reserve) and amortization decreased by 12% YoY, mainly because during the suspension of extraction at Raspadskaya mine part of the charge was included in other operating expenses.

Depletion of mineral reserves is directly proportional to extraction volumes. Mineral reserves on balance sheet represent tangible assets acquired in business combinations which concerns 3 of our mines (MUK-96, Raspadskaya-Koksovaya and Razrez Raspadskiy). Depletion charge decreased by 77% YoY, mainly because of a revision of estimations used in calculations.

Transportation costs

Transportation costs consist of costs included in sales price that we incur before the right of ownership of our coal products has passed to the buyer and include railroad costs, loading and other services in ports.

All the coal products we sell are transported by railroad. We are among the few Russian coal companies who operate a proprietary railroad network that connects production facilities with the federal railroad network controlled by the state natural monopoly OJSC Russian Railways. Our proprietary railroad network includes 15 km of railroad from our production facilities to Mezhdurechensk federal railroad station.

Fluctuations of railroad tariffs affect the total cost of coal paid by customers and may therefore indirectly impact demand for our coal from customers located far from the production site. Railroad tariffs increased by 6.6% in 1H13.

Other income and expenses

Selling and distribution costs

Selling and distribution costs consist of railroad costs and freight that we incur after the right of ownership has passed to the buyer. These costs are included in revenue from sales of coal products. In addition, selling and distribution costs include customs fees pertaining to export sales, insurance and other services. Selling and distribution costs increased by US$16.3m YoY, mainly because of a significant growth in export sales under CPT and CFR terms.

General and administrative expenses

A breakdown of our general and administrative expenses is set out in the following table:

	1H13		1H12			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Payroll	**13,004**	***43%***	12,877	*42%*	127	*1%*
Payroll taxes	**4,090**	***13%***	3,690	*12%*	400	*11%*
Other taxes	**4,500**	***15%***	4,872	*16%*	(372)	*(8)%*
Materials	**761**	***2%***	945	*3%*	(184)	*(19)%*
Other costs and expenses	**6,751**	***22%***	6,272	*21%*	479	*8%*
Depreciation and amortization	**1,479**	***5%***	1,850	*6%*	(371)	*(20)%*
	30,585	***100%***	30,506	*100%*	79	*0%*

We kept general and administrative expenses at a constant level.

The most material part of our general and administrative expenses is payroll and payroll taxes – 56% and 54% in 1H13 and 1H12 respectively. Other taxes are represented mainly by property tax. Other costs and expenses include cost of insurance, bank, information, telecommunications, consulting, audit and other services.

Social expenses

As is the case with many large Russian production companies, we have certain social expenses that are primarily in the form of donations and social sphere infrastructure maintenance.

Loss on disposal of property, plant and equipment

The profit (loss) arising from disposal (derecognition) of items of property, plant and equipment is determined as the difference between the net disposal proceeds, if there are any, and the carrying amount of the items.

Foreign exchange gains/(losses)

Foreign exchange gains and losses relate to differences arising from revaluation of assets and liabilities in foreign currencies (primarily US dollars) and from selling and buying foreign currencies.

Other operating income and expenses

Other operating income and expenses consist of untypical for our business, non-recurring income and expenses. Other operating expenses were US$12m higher YoY, mainly because costs to maintain Raspadskaya mine were recognized as other operating expenses during the suspension of extraction in May-July 2013.

We continue the reconstruction of Raspadskaya mine after the accident in May 2010. Reconstruction costs include compensatory social payments, costs to extinguish the fire and pump the water out, costs of project works, and purchase and repairs of property, plant and equipment and up to 30 June 2013 amounted to US$200m, of which US$177m were included in other operating income and expenses (including US$3.8m in 1H13).

Interest income and interest expense

Interest income mainly related to deposits held in Russian banks. The YoY decrease in interest income was mainly due to a lower amount of bank deposits.

In 2013 and 2012, the main part of interest expense was coupon on our Eurobonds. We pay on 7.75% Eurobonds US$15.5m each half year. In addition, we pay an interest on a loan from Raiffeisenbank repayable in December 2015 we took in February 2012 to finance our operating activities.

Income tax

Income tax for 1H13 represents the difference between tax accrued (US$14.9m) and the change in the amount of the deferred income tax asset and liability (US$28.6m). The main part of the change in the amount of the deferred income tax asset and liability was a tax benefit arising from loss carry forwards available for offset against future taxable profit.

Adjusted EBITDA

Our Adjusted EBITDA is calculated in the following table:

	1H13	1H12	Change	
	US$000	*US$000*	*US$000*	
Loss for the period	**(67,730)**	(18,581)	(49,149)	*265%*
Adjusted for:				
Foreign exchange losses, net	**33,993**	30,641	3,352	*11%*
Dividend income	**(61)**	(50)	(11)	*22%*
Interest income	**(2,736)**	(4,956)	2,220	*(45)%*
Interest expense	**23,230**	20,318	2,912	*14%*
Amortization of debt issuance cost	**(393)**	(308)	(85)	*28%*
Change in provisions	**211**	3,976	(3,765)	*(95)%*
Net employee benefit	**1,407**	96	1,311	*1366%*
Change in bad debt allowance	**53**	576	(523)	*(91)%*
Income tax	**(13,737)**	(1,035)	(12,702)	*1227%*
Adjusted EBIT	**(25,763)**	30,677	(56,440)	*(184)%*
Adjusted for:				
Depreciation, depletion and amortization	**54,209**	70,911	(16,702)	*(24)%*
Capitalized depreciation	**(1,624)**	(2,689)	1,065	*(40)%*
Adjusted EBITDA	**26,822**	98,899	(72,077)	*(73)%*
Adjusted EBITDA margin	***9%***	*35%*		

Our Adjusted EBITDA for 12 months prior to 30 June 2013 is calculated in the following table:

	US$000
Adjusted EBITDA for 2012	140,859
Less:	
Adjusted EBITDA for 1H12	(98,899)
Adjusted EBITDA for 2H12	41,960
Adjusted EBITDA for 1H13	26,822
Adjusted EBITDA for 12 months	**68,782**

Indebtedness

Our indebtedness is calculated in the following table:

	30/06/13	31/12/12	Change	
	US$000	*US$000*	*US$000*	
Long-term loans	**397,167**	546,533	(149,366)	*(27)%*
Short-term loans and current portion of long-term loans	**156,114**	7,145	148,969	*2085%*
Debt	**553,281**	553,678	(397)	*(0)%*
Less:				
Short-term bank deposits	**–**	(112,689)	112,689	*(100)%*
Cash and cash equivalents	**(100,044)**	(7,731)	(92,313)	*1194%*
	(100,044)	(120,420)	20,376	*(17)%*
Net debt	**453,237**	433,258	19,979	*5%*

At 30 June 2012, 7,75% Eurobonds and the loan from Raiffeisenbank in the amount of US$150m constituted the main component of our long-term debt.

At 30 June, the ratio of Debt to Adjusted EBITDA for 12 months equaled 8.0. As at the date of issue of the financial statements for the six-month period ended 30 June 2013, we complied with all the covenants stipulated in loan agreements and are able to freely refinance our debt. We may not increase the amount of debt until the ratio of Debt to Adjusted EBITDA stipulated in loan agreements falls below 3.

Liquidity

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

Our cash flow statement is summarized in the following table:

	1H13	**1H12**	**Change**	
	US$000	*US$000*	*US$000*	
Cash and cash equivalents at 1 January	**7,731**	180,100	(172,369)	*(96)%*
Net cash from operating activities	**35,006**	73,140	(38,134)	*(52)%*
Net cash used in investing activities	**79,967**	(25,599)	105,566	*n/a*
Net cash used in financing activities	**(21,197)**	(196,190)	174,993	*(89)%*
Effect of forex rate changes on cash and cash equivalents	**(1,463)**	41,823	(43,286)	*n/a*
Cash and cash equivalents at 31 December	**100,044**	73,274	26,770	*37%*

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

Working capital

Our working capital is calculated in the following table:

	30/06/13	**31/12/12**	**Change**	
	US$000	*US$000*	*US$000*	
Inventories	**95,376**	107,745	(12,369)	*(11)%*
Receivables	**94,800**	114,325	(19,525)	*(17)%*
Prepayments	**7,553**	9,981	(2,428)	*(24)%*
Taxes recoverable	**27,771**	15,243	12,528	*82%*
Less:				
Payables	**(88,566)**	(73,456)	(15,110)	*21%*
Taxes payable	**(27,916)**	(26,542)	(1,374)	*5%*
Advances	**(6)**	(20)	14	*(70)%*
Working capital	**109,012**	147,276	(38,264)	*(26)%*

The main reason for the decrease in inventories was the significant shrinkage of the raw coal stockpile.

Receivables decreased by US$19.5m YoY, mainly because sales volumes and prices decreased in 2Q13 compared to 4Q12.

Taxes recoverable (mainly VAT) increased by US$12.5m YoY because of an increase in export sales volumes.

Payables increased by US$15.1m in YoY, mainly because we are negotiating delaying payments with our major creditors.

Capital expenditure

Our capital expenditure is set out in the following table:

	1H13		1H12			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Mines	**40,721**	***94%***	35,961	*92%*	4,760	*13%*
Other	**2,570**	***6%***	3,195	*8%*	(625)	*(20)%*
	43,291	***100%***	39,156	*100%*	4,135	*11%*

In 1H13 we made no significant capital expenditures. We do not plan to make significant capital expenditures in 2H13 either.

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 condition or results of operations.