OAO Raspadskaya

Management's discussion and analysis
of financial condition and results of operations
for the year ended 31 December 2012

This discussion and analysis should be read in conjunction with Raspadskaya's consolidated financial statements for the year ended 31 December 2012 prepared in accordance with International Financial Reporting Standards.

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 Raspadskaya-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.

Starting January 2013, as a result of an investment deal, OAO Raspadskaya has become a subsidiary of EVRAZ plc, an international mining and metallurgical company (for details of the deal see the site of EVRAZ plc at: http://www.evraz.com/ru/press/?ID=12558&PAGEN_1=1).

Overview of financial results

	2012	2011	Change	
	US$000	*US$000*	*US$000*	
Revenue	**541,686**	726,101	(184,415)	*(25)%*
Cost of sales	**(446,592)**	(358,805)	(87,787)	*24%*
Gross profit	**95,094**	367,296	(272,202)	*(74)%*
Gross profit margin	***18%***	*51%*		
Selling and distribution costs	**(9,766)**	(4,543)	(5,223)	*115%*
General and administrative expenses	**(61,552)**	(60,879)	(673)	*1%*
Social expenses	**(8,463)**	(9,117)	654	*(7)%*
Loss on disposal of PP&E	**(2,308)**	(7,057)	4,749	*(67)%*
Foreign exchange gains/(losses)	**3,991**	(10,754)	14,745	*n/a*
Other operating income	**9,347**	9,512	(165)	*(2)%*
Other operating expenses	**(22,160)**	(95,926)	73,766	*(77)%*
Operating profit	**4,183**	188,532	(184,349)	*(98)%*
Dividend income	**51**	23	28	*122%*
Interest income	**8,688**	16,865	(8,177)	*(48)%*
Interest expense	**(43,367)**	(28,132)	(15,235)	*54%*
Profit/(loss) before income tax	**(30,445)**	177,288	(207,733)	*n/a*
Income tax	**(543)**	(41,571)	41,028	*(99)%*
Profit/(loss) for the year	**(30,988)**	135,717	(166,705)	*n/a*
Earnings/(loss) per share, ¢	**(4.3)**	17.3		
Adjusted EBIT	**8,366**	195,860	(187,494)	*(96)%*
Adjusted EBITDA	**140,859**	320,812	(179,953)	*(56)%*
Adjusted EBITDA margin	***26%***	*44%*		
Capex	**83,103**	144,437	(61,334)	*(42)%*
	31/12/12	**31/12/11**		
Debt	**553,678**	305,270	248,408	*81%*
Net debt	**433,258**	44,991	388,267	*863%*

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Contents

Mineral reserves and resources

Volumes of our coking coal reserves and resources as at 31 December 2011 estimated by IMC Montan (International Economic and Energy Consulting) in accordance with the requirements of the JORC Code are set out in the following table:

	Reserves	Resources
	Mt	*Mt*
Semi-hard coking coal	1,178	1,576
Hard coking coal	136	233
	1,314	**1,809**

The above resources do not include inferred resources of 120 million tonnes of semi-hard coking coal and 142 million tonnes of hard coking coal. In addition, in March 2012 Razrez Raspadskiy obtained a right to develop a coal field with reserves of 5.6 million tonnes.

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. At present, we prepare all semi-hard coking coal and sell it as coal concentrate, whereas we sell hard coking as raw coal.

In 2012, we extracted 7.0 million tonnes of coking coal.

Key factors affecting our results of operations

Certain factors relating to our business and industry, as well as the political, economic and legal environment in Russia, affect our results of operations. Such 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 issue 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 mostly denominated 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:

	2012	2011	Change
Average exchange rate, *RUB/US$*	31.0930	29.3874	*6%*
	31/12/12	**31/12/11**	
Exchange rate, *RUB/US$*	30.3727	32.1961	*(6)%*

Production capacity

Production capacity of our mines is a factor that sets a ceiling on our production volumes and, consequently, on 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.

In May 2010 an accident occurred at Raspadskaya mine resulting in deaths and injury to people. One of the negative effects of the accident was that the mine temporarily ceased its operations which severely cut our production capacity.

At present, we are reconstructing Raspadskaya mine. The reconstruction process is being conducted in stages i.e. parts of the mine are put into operation before the whole mine has been reconstructed. The reconstruction expenditure includes compensatory social payments, costs of fire extinguishing and pumping the water out, project works, and purchase and repairs of property, plant and equipment and up to 31 December 2012 amounted to US$196m.

In December 2010 Raspadskaya mine recommenced operation at one of its faces, in October 2011 a 2nd face was put in operation, and in May 2012 – a 3rd one. By the end of 2012, there were 2 faces in operation.

In 2012, our coal extraction capacity was 880 thousand tonnes per month, including 800 thousand tonnes of semi-hard coking coal.

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

Supply and demand of coking coal

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

Our customers are large domestic and foreign steel and coke producers. Therefore, our results are influenced by situation in the Russian and international steel markets. At present, we sell mainly in 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 gradual implementation and widening use of PCI method in steel making process. The technology allows to reduce coking coal consumption and use coal of a lower quality.

After a big drop in demand caused by the global economy recession of 2008-2009, the demand for steel products and, consequently, for coking coal globally and in Russia was strengthening up to 4Q2011 which impacted positively our sales. 4Q2011 through 3Q2012, demand was weakening, especially in Russia. In the summer and fall of 2012, sales volumes to our Russian customers dropped by 30-40% compared to those in the fall of 2011. In 4Q2012 demand and price conditions in the international market started to gradually restore which is reflected by increasing sales volumes.

Our results can be indirectly affected by the situation with the coal production capacities and the sales volumes of our competitors. We believe that there will be no significant increase of 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 and continuous communication and attention to planned projects, interests of our present and potential clients.

Prices of coking coal

Both domestic and export prices of coking coal have a crucial impact on our revenue and therefore results of 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, in term of pricing differentials, coking coal is priced according to its coking characteristics because coking coal is a product with significant quality differentiations. Coal quality is therefore the major criteria for customer selection before price considerations.

During 2011 and 2012, we operated in the frames of long-term contracts with our major Russian customers and negotiated the volumes and prices on the quarterly basis. In contracts, our domestic sales prices are set in rubles, and export prices are set in US dollars. Our export price depends on the market we sell in, also with constant presence and working at quarterly prices or entering new markets and using one-shot spot prices.

All domestic sales and the bulk of sales to Ukraine were made under FCA Mezhdurechensk delivery terms. Other terms we used in 2012 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:

	2012	**2011**	**Change**
	US$/t	*US$/t*	
Russia	**110.5**	159.1	*(31)%*
Ukraine	**78.9**	157.0	*(50)%*
Asia	**76.5**	–	*n/a*

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

	1Q2011	**2Q2011**	**3Q2011**	**4Q2011**	**1Q2012**	**2Q2012**	**3Q2012**	**4Q2012**
	US$/t	*US$/t*	*US$/t*	*US$/t*	*US$/t*	*US$/t*	*US$/t*	*US$/t*
Russia	147.1	174.1	167.3	149.7	130.2	114.1	102.4	98.6
QoQ change	*12%*	*18%*	*(4)%*	*(10)%*	*(13)%*	*(12)%*	*(10)%*	*(4)%*
Ukraine	–	–	–	157.0	105.3	90.2	76.8	64.3
QoQ change	–	–	–	*n/a*	*(33)%*	*(14)%*	*(15)%*	*(16)%*
Asia	–	–	–	–	–	100.5	60.8	60.2
QoQ change	–	–	–	–	–	*n/a*	*(40)%*	*(1)%*

Both in January and February 2013, weighted average price of 1t of our coal concentrate sold in Russia was US$101.6.

Even though since 4Q2012 demand has been showing some signs of restoration, so far the restoration has had no significant positive impact on our sales prices.

Our low weighted average prices in Asia in 3-4Q2012 are explained by significant volumes of spot sales following the downward trend in 3Q2012 that were made 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. Thus, on 5 March 2013 we signed a five year contract with Hyundai Steel to supply coal products.

Sales volumes

Up to 4Q2011 our production capacity limited our sales volumes. But since 4Q2011 demand has been the main factor affecting our sales volumes, and at present our production capacity exceeds the demand.

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

	1Q2011	**2Q2011**	**3Q2011**	**4Q2011**	**1Q2012**	**2Q2012**	**3Q2012**	**4Q2012**
	t000	*t000*	*t000*	*t000*	*t000*	*t000*	*t000*	*t000*
Russia	935	904	926	936	864	866	778	1,080
QoQ change	*4%*	*(3)%*	*2%*	*1%*	*(8)%*	*0%*	*(10)%*	*39%*
Ukraine	–	–	–	33	71	116	159	203
QoQ change	–	–	–	*n/a*	*115%*	*63%*	*37%*	*28%*
Asia	–	–	–	–	–	88	44	89
QoQ change	–	–	–	–	–	*n/a*	*(50)%*	*102%*
Export	–	–	–	33	71	204	203	292
Total	**935**	**904**	**926**	**969**	**935**	**1,070**	**981**	**1,372**
QoQ change	***4%***	***(3)%***	***2%***	***5%***	***(4)%***	***14%***	***(8)%***	***40%***

In January and February 2013, our total sales volume of coal concentrate amounted to 543 and 390 thousand tonnes respectively.

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

	2012		**2011**			
	Volume	**Portion**	**Volume**	**Portion**	**Change**	
	t000		*t000*		*t000*	
Coal concentrate – Russia						
MMK	**1,106**	***25%***	1,133	*30%*	(27)	*(2)%*
Koks	**808**	***19%***	1,006	*27%*	(198)	*(20)%*
Mechel	**613**	***14%***	314	*8%*	299	*95%*
NLMK	**469**	***11%***	473	*13%*	(4)	*(1)%*
Evraz	**264**	***6%***	520	*14%*	(256)	*(49)%*
Metalloinvest	**135**	***3%***	101	*3%*	34	*34%*
Stroyservis	**130**	***3%***	150	*4%*	(20)	*(13)%*
Other	**63**	***1%***	5	*0%*	58	*1160%*
	3,588	***82%***	3,702	*99%*	(114)	*(3)%*
Coal concentrate – export						
Ukraine (1)	**549**	***13%***	33	*1%*	516	*1564%*
Asia	**221**	***5%***	–	–	221	*n/a*
	770	***18%***	33	*1%*	737	*2233%*
Coal concentrate – total	**4,358**	***100%***	3,735	*100%*	623	*17%*
Raw coal – Russia (2), (3)	**694**		952		(258)	*(27)%*
Coal concentrate and raw coal	**5,052**		4,687		365	*8%*

(1) Including sales to Evraz in the volume of 428 thousand tonnes in 2012 and 33 thousand tonnes in 2011;
(2) Including sales to Evraz in the volume of 667 thousand tonnes in 2012 and 952 thousand tonnes in 2011;
(3) Including sales of coal from ancillary mining in the volume of 85 thousand tonnes in 2012.

Despite a sharp decrease in sales volumes to Evraz, it still had the largest share in total sales volume of 27% in 2012 compared to 32% in 2011. The main reasons for the decrease in sales volumes to Evraz's plants were repairs of one of the converters and gradual implementation of PCI method.

Raw coal had a significant portion in total sales volume of our coal products – 14% in 2012 and 20% in 2011. All the raw coal sold to Evraz we sell under long-term contracts.

Starting 4Q2011, as demand in the Russian market set to decline, we, in order to keep up and increase sales volumes, recommenced export – in October 2011 to Ukraine and in May 2012 to Asia. In future, we intend to expand share of export up to 30-35%, especially in Asia, as a means to offset decreases of sales volumes in the domestic market. We expect that export expansion will allow us to reduce stockpiles and per tonne costs of production, and utilize our production capacity more efficiently.

Revenue

Components of revenue are set out in the following table:

	2012		2011			
	Amount	Portion	Amount	Portion	Change	
	US$000		*US$000*		*US$000*	
Coal concentrate – Russia	**396,637**	***78%***	589,151	*83%*	(192,514)	*(33)%*
Coal concentrate – export	**60,221**	***12%***	5,509	*1%*	54,712	*993%*
	456,858	***90%***	594,660	*84%*	(137,802)	*(23)%*
Raw coal – Russia	**52,329**	***10%***	113,310	*16%*	(60,981)	*(54)%*
	509,187	***100%***	707,970	*100%*	(198,783)	*(28)%*
Transportation costs in sales price [(1)]	**22,963**		–		22,963	*n/a*
Sales of other goods	**1,436**		9,520		(8,084)	*(85)%*
Rendering of services	**8,100**		8,611		(511)	*(6)%*
Revenue	**541,686**		726,101		(184,415)	*(25)%*

(1) Consist 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 decreased by US$184.4m YoY mainly because of lower prices of coal products.

In 2011, there were no transportation costs because all our sales were made under FCA Mezhdurechensk terms.

In 2012 and 2011, sales of other goods and rendering of services were made within Russia only. Rendering of services mainly include coal transportation services provided locally to other coal companies.

Production volumes

Our production volumes are driven by demand but also restricted by production capacity. At present, our mines have a large production potential that is being held back by the market conditions. Today, our business depends not on production capacities but on the situation on the industry markets because since the end of 2011 the coking coal market has been buyer's market.

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

	2012	2011	Change	
	t000	*t000*	*t000*	
Raw coal extraction	**7,002**	6,251	751	*12%*
Raw coal preparation	**6,057**	5,140	917	*18%*
Coal concentrate production	**4,506**	3,765	741	*20%*
Output ratio	***74.4%***	*73.2%*		

Output ratio is driven mainly by ash content of coal extracted – the lower the content the higher the ratio.

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

	31/12/12	**31/12/11**	**Change**	
	t000	*t000*	*t000*	
Raw coal	**458**	213	245	*115%*
Coal concentrate (including concentrate at ports)	**127**	32	95	*297%*

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

Cost of production and cost of sales

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

Cash costs of our coal extraction are set out in the following table:

	2012	**2011**	**Change**	
	US$000	*US$000*	*US$000*	
Cash cost of extraction of coal	**306,311**	209,119	97,192	*46%*
	US$	*US$*	*US$*	
Cash cost of extraction of 1t of coal	**43.7**	33.5	10.2	*30%*

Cash cost of extraction of coal increased mainly because of an increase in expenses included in production costs due to the fact that the main stage of recovery works at Raspadskaya mine was finalized. In addition, the volume of development at the mine also increased.

All this led to the increase in cash cost of extraction of 1t of coal, despite an increase in extraction volume.

Estimated cash costs of our coal concentrate preparation are set out in the following table:

	2012	**2011**	**Change**	
	US$000	*US$000*	*US$000*	
Estimated cash cost of coal used in concentrate preparation (1)	**254,971**	165,366	89,605	*54%*
Cash cost of preparation	**18,201**	19,113	(912)	*(5)%*
Cash cost of production transportation of coal concentrate	**3,918**	2,802	1,116	*40%*
Estimated cash cost of coal concentrate	**277,090**	187,281	89,809	*48%*
	US$	*US$*	*US$*	
Estimated cash cost of 1t of coal used in concentrate preparation	**42.1**	32.2	9.9	*31%*
Cash cost of preparation of 1t of coal used	**3.0**	3.7	(0.7)	*(19)%*
Cash cost of production transportation of 1t of coal concentrate	**0.9**	0.8	0.1	*9%*
Estimated cash cost of 1t of concentrate (2)	**61.5**	49.7	11.8	*24%*

(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 74.4% for 2012 and 73.2% for 2011.

If sales and production volumes had reached the planned levels, cash cost of 1 t of coal concentrate would have been no less than 30% lower than the actual one in 2012.

We expect that the ruble-denominated estimated cash cost of production of 1t of concentrate will decrease as production volumes increase.

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

	2012		2011			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Payroll	**96,309**	***22%***	73,787	*21%*	22,522	*31%*
Payroll taxes	**38,140**	***9%***	28,767	*8%*	9,373	*33%*
Other taxes	**22,830**	***5%***	16,780	*5%*	6,050	*36%*
Materials	**97,471**	***22%***	74,324	*21%*	23,147	*31%*
Electricity	**17,444**	***4%***	12,855	*4%*	4,589	*36%*
Other costs and expenses	**36,996**	***8%***	25,235	*7%*	11,761	*47%*
Cash cost of production	**309,190**	***70%***	231,748	*66%*	77,442	*33%*
Depreciation, depletion (excluding mineral reserve) and amortization	**98,267**	***23%***	83,015	*24%*	15,252	*18%*
Depletion of mineral reserve	**28,955**	***7%***	33,013	*10%*	(4,058)	*(12)%*
Cost of production	**436,412**	***100%***	347,776	*100%*	88,636	*25%*
Transportation costs	**19,240**		–		19,240	*n/a*
Cost of resold goods	**1,361**		9,269		(7,908)	*(85)%*
Cost of rendering of services	**6,463**		6,488		(25)	*(0)%*
Change in finished goods	**(16,884)**		(4,728)		(12,156)	*257%*
Cost of sales	**446,592**		358,805		87,787	*24%*

Payroll and payroll taxes

Payroll and payroll taxes constitute the largest item of our production cash costs – 43% and 44% in 2012 and in 2011 respectively.

The increase in production payroll by 31% YoY came about mainly because in 2011 payroll of many miners who took part in the reconstruction of Raspadskaya mine was included in other operating expenses, and since the mine completed the main stage of reconstruction and miners returned to coal extraction the payroll has been included in production costs.

Payroll taxes consist of regular mandatory contributions to the state 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:

	2012	**2011**	**Change**	
Average total number of employees	**8,231**	8,178	53	*1%*
Total payroll, *US$000*	**134,666**	134,375	291	*0%*
Total payroll taxes, *US$000*	**49,169**	48,111	1,058	*2%*
Effective payroll tax rate	***37%***	*36%*		

Overall, in 2011-2012, total payroll did not materially change.

Although starting 1 January 2012, payroll tax rate was reduced from 34% to 30%, effective payroll tax rate in 2012 increased compared to 2011 because of the introduction of additional pension payments at a rate of 6.7% for miners as employees in harmful and dangerous working conditions.

Other taxes

Other taxes included in production costs consist primarily of the mineral extraction tax and the land lease rental. Other taxes increased by 36% YoY mainly because land rent rate preferences were abolished.

Materials and electricity

The increase in materials cost by 31% YoY was, apart from inflation, mainly due to increase in mine development and quantity of materials used in repairs.

Electricity cost increased by 36% YoY principally because of an increase of the active electricity tariff by 17% and commencement of new faces and longwall panels at Raspadskaya mine.

Other costs and expenses

Other costs and expenses increased by 47% YoY mainly due to an increase in volumes of drilling and blasting work, services associated with repairs of mining equipment, equipment maintenance, and safe working conditions.

Depreciation, depletion and amortization

Depreciation, depletion and amortization comprise a significant portion in our cost of production – 30% and 34% in 2012 and in 2011 respectively.

Depreciation, depletion (excluding mineral reserve) and amortization increased by 18% YoY mainly because of large additions of property, plant and equipment in 2011.

Depletion of mineral reserves is directly proportional to extraction volumes. Mineral reserves represent tangible assets acquired in business combinations which concerns 3 of our mines (MUK-96, Raspadskaya-Koksovaya and Razrez Raspadskiy). The decrease in depletion charge was due to a decrease in total extraction by these companies.

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. In 2011, there were no transportation costs because all our sales were made under FCA Mezhdurechensk terms.

All the coal products we sell are transported by railroad. We are among the few Russian coal producers who own and operate an integrated coal transportation network that is directly connected to the federal railroad system operated by the state monopoly OJSC Russian Railways. Our proprietary coal transportation network includes 15 km of railroad, which connects our production facilities with the federal railroad station Mezhdurechensk.

Fluctuations of railroad tariffs affect the total cost paid by our customers, and as such, may impact demand for our coal from any customers located far from our production site. Railroad tariffs increased by 7% in 2012.

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, customs fees pertaining to export sales, insurance and other services.

General and administrative expenses

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

	2012		2011			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Payroll	**25,289**	***41%***	26,020	*43%*	(731)	*(3)%*
Payroll taxes	**6,178**	***10%***	5,524	*9%*	654	*12%*
Other taxes	**9,669**	***16%***	10,745	*18%*	(1,076)	*(10)%*
Materials	**2,294**	***4%***	2,475	*4%*	(181)	*(7)%*
Other costs and expenses	**14,777**	***24%***	11,856	*19%*	2,921	*25%*
Depreciation and amortization	**3,345**	***5%***	4,259	*7%*	(914)	*(21)%*
	61,552	***100%***	60,879	*100%*	673	*1%*

The most material part of our general and administrative expenses is payroll and payroll taxes – 51% and 52% in 2012 and 2011 respectively.

Other taxes are represented mainly by property tax.

Other costs and expenses include insurance, bank, information, communication, consulting, audit and other services. Other costs and expenses increased by 25% YoY mainly because of an increase in expenses associated with repairs and maintenance of administrative buildings.

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 the disposal (derecognition) of items of property, plant and equipment is determined as the difference between the net disposal proceeds, if there is 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 non-recurring income and expenses. Other operating expenses were 77% lower YoY mainly because of a decrease in expenses associated with the completion of the main stage of recovery works and the reconstruction of Raspadskaya mine.

Interest income and interest expense

Interest income mainly related to deposits held in Russian banks. The decrease in interest income was mainly due to a lower amount of bank deposits held in 2012 compared to 2011.

In 2012 and 2011, 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 we took in February 2012 to finance our operating activities.

Income tax

In 2012, the amount of income tax (US$0.5m) represents the difference between tax accrued (US$20.7m) and the change in the amount of the deferred income tax asset and liability (US$20.2m). 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:

	2012	**2011**	**Change**	
	US$000	*US$000*	*US$000*	
Profit/(loss) for the period	**(30,988)**	135,717	(166,705)	*n/a*
Adjusted for:				
Foreign exchange (gains)/losses, net	**(3,991)**	10,754	(14,745)	*n/a*
Dividend income	**(51)**	(23)	(28)	*122%*
Interest income	**(8,688)**	(16,865)	8,177	*(48)%*
Interest expense	**43,367**	28,132	15,235	*54%*
Amortization of debt issuance cost	**(699)**	(433)	(266)	*61%*
Reversal of loss on disposal of PP&E	**–**	(3,969)	3,969	*(100)%*
Change in provisions	**2,855**	(186)	3,041	*n/a*
Net employee benefit	**5,338**	1,257	4,081	*325%*
Change in bad debt allowance	**680**	(95)	775	*n/a*
Income tax	**543**	41,571	(41,028)	*(99)%*
Adjusted EBIT	**8,366**	195,860	(187,494)	*(96)%*
Adjusted for:				
Depreciation, depletion and amortization	**137,330**	131,404	5,926	*5%*
Capitalized depreciation	**(4,837)**	(6,452)	1,615	*(25)%*
Adjusted EBITDA	**140,859**	320,812	(179,953)	*(56)%*
Adjusted EBITDA margin	***26%***	*44%*		

Indebtedness

Our indebtedness is calculated in the following table:

	2012	2011	Change	
	US$000	*US$000*	*US$000*	
Long-term loans	**546,533**	1,243	545,290	*43869%*
Short-term loans and current portion of long-term loans	**7,145**	304,027	(296,882)	*(98)%*
Debt	**553,678**	305,270	248,408	*81%*
Less:				
Short-term bank deposits	**(112,689)**	(80,179)	(32,510)	*41%*
Cash and cash equivalents	**(7,731)**	(180,100)	172,369	*(96)%*
	(120,420)	(260,279)	139,859	*(54)%*
Net debt	**433,258**	44,991	388,267	*863%*

At 31 December 2012, 7,75% Eurobonds and the loan from Raiffeisenbank in the amount of US$150m together constituted the main component of our long-term debt.

By issuing in April 2012 7.75% Eurobonds due 2017 in the amount of US$400m, we refinanced our five-year 7.5% Eurobonds in the amount of US$300m due May 2012. The remaining amount of US$100m was used to finance our operating activities.

The Loan Agreement on 7.75% Eurobonds and the Loan Agreement with Raiffeisenbank stipulate a number of covenants. One of these is an obligation not to incur additional indebtedness if Leverage Ratio exceeds 3. Leverage Ratio represents the ratio of Debt to 12-month Adjusted EBITDA and at 31 December 2012 equaled 3.9, and we may not incur any additional debt unless it is permitted by the loan agreements.

Liquidity

Our primary source of liquidity is cash generated from operating activities. In addition, we use debt financing and have access to capital markets. 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:

	2012	2011	Change	
	US$000	*US$000*	*US$000*	
Cash and cash equivalents at 1 January	**180,100**	164,628	15,472	*9%*
Net cash from operating activities	**111,045**	232,712	(121,667)	*(52)%*
Net cash used in investing activities	**(113,482)**	(44,151)	(69,331)	*157%*
Net cash used in financing activities	**(220,245)**	(164,376)	(55,869)	*34%*
Effect of forex rate changes on cash and cash equivalents	**50,313**	(8,713)	59,026	*n/a*
Cash and cash equivalents at 31 December	**7,731**	180,100	(172,369)	*(96)%*

In 2012, a large amount of cash – US$396.4m at exchange rates at the date of each transaction – was used in payments in agreement with shareholders under share buyback program announced at the end of 2011. The purchase price of 150 rubles per share was set based on the average market price for 6 months. In total, we bought back 77,608,366 ordinary shares. On 23 October 2012, Extraordinary General Meeting approved canceling all the treasury shares.

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

Working capital

Our working capital is calculated in the following table:

	31/12/12	31/12/11	Change	
	US$000	*US$000*	*US$000*	
Inventories	**107,745**	84,046	23,699	*28%*
Receivables	**114,325**	99,818	14,507	*15%*
Prepayments	**9,981**	4,614	5,367	*116%*
Taxes recoverable	**15,243**	13,124	2,119	*16%*
Less:				
Payables	**(73,456)**	(48,125)	(25,331)	*53%*
Taxes payable	**(26,542)**	(29,661)	3,119	*(11)%*
Advances	**(20)**	(49)	29	*(59)%*
Working capital	**147,276**	123,767	23,509	*19%*

In 2012, there was a significant growth of stockpile of raw coal and coal concentrate. This, coupled with a higher cost of our coal, was the main reason for the significant increase in inventories.

Payables increased by US$25.3m mainly because we negotiated delaying payments with our major creditors.

Receivables increased by US$14.5m YoY mainly because of increased sales volumes in 4Q2012 YoY and increased payment periods.

Taxes recoverable (mainly VAT) increased by US$2.1m YoY due to the recommencement of export in 2012.

Taxes payable (mainly VAT and income tax) decreased by US$3.1m YoY because of lower sales prices of coking coal.

Capital expenditure

Our capital expenditure is set out in the following table:

	2012		2011			
	Amount	Portion	Amount	Portion	Change	
	US$000		*US$000*		*US$000*	
Mines	**77,112**	***93%***	140,797	*93%*	(63,685)	*(45)%*
Other	**5,991**	***7%***	11,399	*7%*	(5,408)	*(47)%*
	83,103	***100%***	152,196	*100%*	(69,093)	*(45)%*

Capex decreased by 45% mainly because of unfavorable market conditions there was a decrease in investments on production capacity maintenance.

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.