Raspadskaya announces its financial results for 2013 in accordance with IFRS

Moscow, 26 March 2014 – Raspadskaya (MICEX - RTS: RASP) (hereinafter – "Raspadskaya" or the "Company") announces its consolidated financial results for 2013 in accordance with IFRS:

	2013	2012	Change	
	US$000	*US$000*	*US$000*	
Revenue	**545,426**	543,093	2,333	0%
Cost of sales	**(471,530)**	(443,319)	(28,211)	6%
Gross profit	**73,896**	99,774	(25,878)	(26)%
Gross profit margin	***14%***	*18%*		
Selling and distribution costs	**(55,011)**	(13,923)	(41,088)	295%
General and administrative expenses	**(59,648)**	(61,552)	1,904	(3)%
Social expenses	**(2,724)**	(3,550)	826	(23)%
Loss on disposal of PP&E	**(4,637)**	(2,308)	(2,329)	101%
Foreign exchange losses	**(33,338)**	3,991	(37,329)	n/a
Other operating income	**4,746**	4,264	482	11%
Other operating expenses	**(33,548)**	(21,051)	(12,497)	59%
Operating loss	**(110,264)**	5,645	(115,909)	n/a
Dividend income	**60**	51	9	18%
Interest income	**4,344**	8,688	(4,344)	(50)%
Interest expense	**(45,087)**	(43,367)	(1,720)	4%
Loss before income tax	**(150,947)**	(28,983)	(121,964)	421%
Income tax	**24,791**	(543)	25,334	n/a
Loss for the period	**(126,156)**	(29,526)	(96,630)	327%
Loss per share, cents	**(18.0)**	(4.1)		
Adjusted EBIT	**(72,289)**	3,962	(76,251)	n/a
Adjusted EBITDA	**28,079**	136,455	(108,376)	(79)%
Adjusted EBITDA margin	***5%***	*25%*		
Capital expenditures	**83,181**	88,131	(4,950)	(6)%
	31-Dec-13	**31-Dec-12**		
Debt	**503,050**	553,678	(50,628)	(9)%
Net debt	**498,810**	433,258	65,552	15%

2013 Highlights:

- Revenue was flat, year on year, at US$545.4 million
- Adjusted EBITDA was US$28.1 million, with Adjusted EDITDA margin of 5%
- The Company reported a net loss of US$126 million as a result of lower domestic sales volumes, a higher share of exports in a weakening market and as the temporary suspension of operations at the Raspadskaya underground mine in May-July 2013
- On 25 March 2014, the Board of Directors decided not to recommend dividends payment for 2013 to preserve the financial standing and support the growth plans of the Company
- Output of raw coking coal amounted to 7.8 million tonnes in 2013 (7.0 million tonnes in 2012)

- The cash cost per tonne of coal concentrate decreased by 11% compared to 2012 to US$54.9 as a result of a series of cost cutting initiatives
- The weighted average selling price of semi-hard coking coal concentrate in all regional markets, rebased to FCA Mezhdurechensk, was US$75.9 (including US$88.2 in Russia, US$63.7 in Ukraine and US$57.4 in the Asia-Pacific region)
- Capex of US$83.2 million
- As at 31 December 2013, net debt was US$ 498.8 million. The long-term debt consisted primarily of 7.75% Notes in the amount of US$400 million and of a US$100 million intragroup loan provided by EVRAZ group at 4.7%
- On 3 October 2013, Fitch Ratings affirmed Raspadskaya’s long-term foreign and local currency Issuer Default Rating at ‘B+’; Outlook Stable. On 27 December 2013, Moody’s Investors Service Ltd changed the outlook from negative to stable
- From January 2013 Raspadskaya has been part of the vertically integrated steel and mining company EVRAZ plc

Raspadskaya’s General Director , Gennady Kozovoy commented:

“In 2013, the Company paid special attention to health and safety. In 2013, we recorded 49 accidents, including one severe accident, at the Company’s facilities, compared to 67 and two respectively, in 2012.

“Throughout 2013 considerable preparatory work was carried out to begin coal mining at the Raspadskaya underground mine.

“Market conditions continued to be tough, which is reflected in our financial results.“

Raspadskaya
Management's discussion and analysis
of financial condition and results of operations
for 2013

This discussion and analysis should be read in conjunction with the consolidated financial statements of Raspadskaya for 2013 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	*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.

Key factors and risks affecting the results of our business activity

The results of our activities are affected by certain factors related to our business and industry, as well as by those connected with the political, economic and legal environment in Russia. These factors include, among others, exchange rates, production capacity, supply and demand for coking coal (and related prices and sales volumes), as well as production and other costs. Recently, a lack of highly qualified personnel has become a significant factor in the labour market.

Risk	Risk description	Trend of the risk 2012 – 2013 and Mitigations
Global economic factors, industry conditions and cost effectiveness	Raspadskaya's operations are dependent on and sensitive to the global macroeconomic environment and the coking coal supply-demand balance in regional markets, in particular in China. The global supply and demand balance for steel and particularly for coking coal has the potential to significantly affect both prices and volumes across all markets. Fluctuations in RUR/USD exchange rates can negatively impact performance and liquidity. As Raspadskaya's operations have a high level of fixed costs, global economic and industry conditions have a	Risk Direction:  Raspadskaya has been implementing a plan to increase production at its mines, including at the Raspadskaya mine where production is being gradually being restored after the accident in 2010. This should result in a reduction in Raspadkaya's cash costs

Risk	Risk description	Trend of the risk 2012 – 2013 and Mitigations
	significant impact on its operational performance and liquidity.	
Health, safety and environmental (HSE) issues	Safety risks are inherent in the Company's principal business activities of coal mining. Furthermore, the operations are subject to a wide range of HSE laws, regulations and standards, the breach of any of which may result in fines, penalties or other sanctions. Such actions could have a material adverse effect on the Company's business, financial condition and business prospects. HSE is a functional area where new laws, regulations and sanctions are continuously introduced. Regulatory activity could result in elements of Raspadskaya's operations becoming uneconomic.	Risk Direction:  Given that HSE risks can be critical, HSE issues are directly overseen by members of the Board and HSE procedures and material issues are given top priority at all internal management level meetings. EVRAZ, as Raspadskaya's parent company, has implemented a programme to improve the management of safety risks across all business units with the objective of embedding a new safety, harm-free culture at all management and operational levels. Management KPIs include a material factor for safety performance. Safety training has been reviewed with the aim of providing strong and professional safety leadership. For all new projects an operational safety assessment is undertaken as a first step in the engineering design and project approval.
Dependency on certain key markets	Raspadskaya's profitability is highly dependent on limited geographical markets, ie c. 58% of its revenues are derived from Russia and c. 31% from the Asia-Pacific region.	Risk Direction:  The strategic risks and opportunities within these regions are regularly reviewed. The review includes 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.
Capital projects and expenditure	Mining is a capital intensive operational activity requiring both continuing maintenance and development capital expenditure, in addition to capital expenditure focused on improving the Company's cost effectiveness. These intended and planned investments are aligned to the Company's and external market expectations to maximise levels of investment returns. The risks that events or	Risk Direction:  The Company has developed various stressed business scenarios to assess its ability to meet capital expenditure requirements both for maintaining current operations as well as for commissioning investment projects. Project delivery is closely monitored against project plans, resulting in the ongoing management of timely delivery and planned project expenditure.

Risk	Risk description	Trend of the risk 2012 – 2013 and Mitigations
	economic issues outside those factored into the Company's business plans, including regulatory approvals, may negatively impact the Company's anticipated free cash flow could 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.	
Human Resources	Raspadskaya's management and employees represent a key resource and are critical to the delivery of the Company's objectives. The principal related risk is the quality and availability of critical operational and business skills. Associated risks involve selection, recruitment, training and retention of employees and qualified executives. The scarcity of experienced and skilled mining professionals including engineers, mining experts and project managers is a particular risk. As a result, the Company's growth plans might be jeopardized.	Risk Direction:  Succession planning is a key feature of Raspadskaya's human resources management. Raspadskaya seeks to meet its leadership and skill needs through the retention of its employees, internal promotion, structured professional internal mentoring and external development programmes.
Potential Actions by Government	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 an adverse impact on the Company's operations and business. Such developments could have the effect of limiting the Company's ability to obtain financing or sell its	Risk Direction:  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.

Risk	Risk description	Trend of the risk 2012 – 2013 and Mitigations
	products. The recent geopolitical developments around Ukraine may impact Raspadskaya's revenues (Raspadskaya generated c. 7% of its total revenues from its shipments of coal to Ukraine in 2013). In addition, Raspadskaya may be affected by potential government sanctions.	
Business Interruption	Raspadskaya's mining operations are subject to a number of operational risks which could cause prolonged outages or production delays. 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.	Risk Direction:  To mitigate such risks the Company has defined and established business continuity plans, procedures and protocols that are subject to regular review to determine their appropriateness and effectiveness. Business interruptions in coal mining mainly relate to production safety. Measures to mitigate these risks include methane monitoring and degasing systems, timely mining equipment maintenance and employee safety trainings. From May-July 2013 EVRAZ had to suspend mining works at the Raspadskaya underground mine due to increased levels of carbon monoxide. A set of safety measures was implemented in order to alleviate the causes of hazards.
Treasury	Raspadskaya faces various treasury risks including risks around liquidity, credit access, currency fluctuations, and interest rate and tax compliance risks.	Risk Direction:  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. In September 2013, Raspadskaya was provided a loan in the amount of US$100 million by EVRAZ in order to refinance a Raiffeisenbank loan on more favourable market terms. 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 risks is reported within the monthly Board reports of EVRAZ and Raspadskaya and through the review of compliance with such internal controls by an internal audit function, which reports to Raspadskaya's Audit Committee members.

Risk	Risk description	Trend of the risk 2012 – 2013 and Mitigations
Cyber Risk	Real and credible threats to cyber security, the theft of intellectual property and commercially sensitive data, the exploitation of information security weaknesses through the targeting partners, subsidiaries and supply chains, making money through fraud, operating as not just individuals but as well-organized groups based in hard-to- reach jurisdictions.	Risk Direction: IT is progressing with contingency planning to deal with information security threats and risk scenarios to ensure IT continuity and the integrity of data and systems.

Exchange rates

Our performance may be significantly affected by changes in the Rouble/US Dollar exchange rate. Our functional currency is the Russian Rouble, and our assets, revenues and expenses are denominated mostly in Roubles whereas the 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:

	2013	2012	Change
Average exchange rate, *RUB/USD*	31.8480	31.0930	2%
	31-Dec-13	**31-Dec-12**	
Exchange rate, *RUB/USD*	32.7292	30.3727	8%

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.

From 6 May 2013 to 5 July 2013 production at the Raspadskaya underground mine was suspended because of a high level of carbon monoxide within a certain area of the mine. Although production capacity decreased as a result of the suspension, all contracts were nevertheless executed on time and in full due to increased production at the other mines and the use of coal stockpiles. In July 2013 tunneling works at the Raspadskaya underground mine were resumed. On 25 December 2013, a longwall 4-9-23 with reserves of c.900,000 tonnes was commissioned. On 19 March 2014, we launched a second longwall 4-7-27 with reserves of 1,506,000 tonnes. Both longwalls are to be developed in course of 2014-2015. Our production plan envisages the commissioning of two additional longwalls in 2014.

On 26 February 2013, a new longwall with coal reserves of about 1,370,000 tonnes was commissioned at the Raspadskaya-Koksovaya mine.

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 allows for a reduction in coking coal consumption and the use of lower quality coals.

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 coking coal capacity in Russia in the short- to medium-term, mainly due to the following factors: the announced plans of subsurface users to postpone commissioning of new capacities; the prevailing difficult geological and mining conditions that are likely to increase as mining is forced to go to deeper levels; and the significant time and substantial investment involved in the construction and commissioning of mines.

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 mostly sold under contracts or in spot markets, and 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$165 per tonne, US$172 per tonne, US$145 per tonne and US$152 per tonne in 1Q13, 2Q13, 3Q13 and 4Q13 respectively), less discount for the quality of our semi-hard coking coal concentrate.

In 2013 and 2012, we cooperated with our major Russian customers within the framework of long-term contracts and adjusted volume and prices mainly 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. Typically we use quarterly contract prices, but if entering a new market we may use one-time 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, 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:

	2013	**2012**	**Change**
	US$/t	*US$/t*	
Russia	88.2	110.5	*(20)%*
Ukraine	63.7	78.9	*(19)%*
Asia	57.4	76.5	*(25)%*

In 2012-13, the downward price trend was caused by surplus of coking coal production both in international and Russian markets, in particular due to the effect of the weakening Chinese demand 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. 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.

In addition, the following factors led to relatively low realized sale prices in Asia: significant volumes of spot sales in order to proactively enter the Asia-Pacific market and to expand our client base with a view to shifting more sales in the future to quarterly benchmark pricing; a significant decrease in Chinese spot prices and a shift of the whole international coal trade from benchmark prices to spot indices.

Sales volumes

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

	1Q12	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**3Q13**	**4Q13**
	t000	*t000*	*t000*	*t000*	*t000*	*t000*	*t000*	*t000*
Russia	864	866	778	1,080	898	719	786	567
QoQ change	*(8)%*	*0%*	*(10)%*	*39%*	*(17)%*	*(20)%*	*9%*	*(28)%*
Ukraine	71	116	159	203	193	135	162	92
QoQ change	*115%*	*63%*	*37%*	*28%*	*(5)%*	*(30)%*	*20%*	*(44)%*
Asia	-	88	44	89	306	472	415	390
QoQ change	-	*n/a*	*(50)%*	*102%*	*244%*	*54%*	*(12)%*	*(6)%*
Export - Total	71	204	203	292	499	607	578	482
Total	**935**	**1,070**	**981**	**1,372**	**1,397**	**1,326**	**1,364**	**1,049**
QoQ change	***4%***	***14%***	***(8)%***	***40%***	***2%***	***(5)%***	***3%***	***(23)%***

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

	2013		**2012**				**2013**	**2012**
	Volume	**Portion**	**Volume**	**Portion**	**Change**		**Amount**	**Amount**
	t000		*t000*		*t000*		*US$000*	*US$000*
Coal concentrate – Russia	**2,970**	***58%***	3,588	*82%*	(618)	*(17)%*	**262,044**	**396,637**
including to EVRAZ	**187**	***4%***	264	*6%*	(77)	*(29)%*	**18,356**	**29,167**
Coal concentrate – export								
Europe	**582**	***11%***	549	***13%***	33	*6%*	39,059	50,082
including to EVRAZ	***582***	***11%***	*428*	***10%***	154	*36%*	39,059	34,299
Asia-Pacific	**1,583**	***31%***	221	***5%***	1,362	*616%*	188,185	33,102
	2,166	***42%***	770	*18%*	1,395	*181%*	**227,244**	**83,184**
Coal concentrate – total	**5,135**	***100%***	4,358	*100%*	777	*18%*	**489,288**	**479,821**
Raw coal – Russia	**720**		694		26	*4%*	43,683	52,329
including to EVRAZ	**720**	***100%***	667	*96%*	53	*8%*	43,683	51,253
Coal concentrate and raw coal	**5,855**		5,052		803	*16%*	**532,971**	**532,150**

In 2013, the share of coal products delivered to EVRAZ's plants amounted to 25% of the total coal product sales. Sales volumes increased from 1,179,000 tonnes in 2012 up to 1,489,000 tonnes in 2013, mainly due to an increase of shipments to EVRAZ's plants in Ukraine.

Raw coal accounted for a significant proportion of the total sales volume of our coal products - 12% and 14% in 2013 and 2012 respectively. All raw coal was sold to EVRAZ under long-term contracts.

When demand in the Russian market began to shrink, in order to maintain and increase our sales volumes, we redirected our sales towards export; in 2013 we increased the share of exports in the total concentrate sales volumes to 42%. Consequently, although sales volumes of concentrate in the domestic market decreased by 17% in 2013 compared to 2012, total sales volumes of concentrate increased by 18%.

The growth of sales volumes in the Asia-Pacific region was especially significant - from 5% of our total sales volumes of concentrate in 2012 up to 31% in 2013. In 2013, we expanded our client base in the region: among our customers there were large steel companies.

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.

Revenue

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

	2013		2012			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Coal concentrate – Russia	**262,044**	***60%***	396,637	*78%*	(134,593)	*(34)%*
Coal concentrate – export	**127,953**	***30%***	60,221	*12%*	67,733	*112%*
	389,997	***90%***	456,858	*90%*	(66,861)	*(15)%*
Raw coal – Russia	**43,683**	***10%***	52,329	*10%*	(8,646)	*(17)%*
	433,680	***100%***	509,187	*100%*	(75,506)	*(15)%*
Transportation costs in sales price	**99,291**		22,963		76,328	*332%*
Sales of other goods	**3,200**		2,843		357	*13%*
Rendering of services	**9,255**		8,100		1,155	*14%*
Revenue	**545,426**		543,093		2,333	*0%*

(1) Excluding sales of associated coal in the amount of 63 thousand tonnes and 85 thousand tonnes in 2013 and 2012 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 2013 by US$75.5 million, or by 15% compared to 2012, due to the 28% decrease in the FCA price.

The significant increase of the transport component in the selling price (from US$23.0 million to US$99.3 million) was driven by the considerable increase in sales under terms other than FCA Mezhdurechensk, mainly to Asia.

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

Thus, taking into account the decrease in revenue from coal sales (FCA) and the growth of the transportation component the total revenue remained at the level of 2012.

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:

	2013	2012	Change	
	t000	*t000*	*t000*	
Raw coal extraction	**7,824**	7,002	821	*12%*
Raw coal preparation	**7,284**	6,057	1,227	*20%*
Coal concentrate production	**5,250**	4,506	745	*17%*
Concentrate yield	***72.1%***	*74.4%*		

We increased raw coal mining by 12%, including an increase in production by 1,738,000 tonnes, or by 75%, at Razrez Raspadskiy open pit; by 204,000 tonnes, or by 30% at Raspadskaya-Koksovaya mine; and by 174,000 tonnes, or by 13% at MUK -96 mine. Production at Raspadskaya mine decreased by 1,295,000 tonnes, or by 48% due to a temporary suspension of operations in May-July 2013.

Increase in production of concentrate by 17% resulted from the 20% increase in preparation volumes including use of stocks, while the concentrate yield decreased by 2.3%.

Reduction in concentrate output was mainly due to the increase in the ash content of extracted coal by 1.6% and the change in the mix of washed coals.

The coal stocks are set out in the following table:

	31-Dec-13	31-Dec-12	Change	
	t000	*t000*	*t000*	
Raw coal	**272**	458	(186)	*(41)%*
Coal concentrate (including concentrate at ports)	**202**	127	75	*59%*

The growth in stocks of coal concentrate is driven by the increased 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 out in the following table:

	2013	2012	Change	
	US$000	*US$000*	*US$000*	
Cash cost of extraction of coal	**299,585**	286,847	12,739	*4%*
Cash cost of preparation	**21,925**	18,201	3,724	*20%*
Cash cost of production transportation of coal concentrate	**3,721**	3,918	(197)	*(5)%*
Cash cost of production	**325,231**	308,966	16,265	*5%*
	US$	*US$*	*US$*	
Cash cost of extraction of 1t of coal	**38.3**	41.0	(2.7)	*(7)%*

The cash cost of production of 1 tonne of coal decreased by 7% compared to 2012, as a result of the increase in coal production.

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

	2013	2012	Change	
	US$000	*US$000*	*US$000*	
Estimated cash cost of coal used in concentrate preparation	**262,604**	254,971	7,633	*3%*
Cash cost of preparation	**21,925**	18,201	3,724	*20%*
Cash cost of production transportation of coal concentrate	**3,721**	3,918	(197)	*(5)%*
Estimated cash cost of coal concentrate	**287,033**	277,090	9,943	*4%*
	US$	*US$*	*US$*	
Cash cost of 1t of coal used in concentrate preparation	**36.1**	42.1	(6.0)	*(14)%*
Cash cost of preparation of 1t of coal used	**3.0**	3.0	-	*0%*
Cash cost of production transportation of 1t of coal concentrate	**0.7**	0.9	(0.2)	*(22)%*
Estimated cash cost of 1t of coal concentrate	**54.9**	61.5	(6.6)	*(11)%*

(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 72.1% and 74.4% for 2013 and 2012 respectively.

The estimated cash cost of 1 tonne of coal concentrate in 2013 decreased by 11% compared to 2012, mainly due to the increase in coal production by 10% and in raw coal preparation by 20%.

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

	2013		2012			
	Amount	Portion	Amount	Portion	Change	
	US$000		*US$000*		*US$000*	
Payroll	**97,907**	**24%**	101,222	23%	(3,315)	*(3)%*
Payroll taxes	**39,058**	**9%**	38,140	9%	918	*2%*
Other taxes	**11,546**	**3%**	11,039	3%	507	*5%*
Materials	**119,150**	**29%**	93,796	21%	25,354	*27%*
Electricity	**15,783**	**4%**	17,444	4%	(1,661)	*(10)%*
Other costs and expenses	**41,787**	**10%**	47,325	11%	(5,538)	*(12)%*
Cash cost of production	**325,231**	**78%**	308,966	71%	16,265	*5%*
Depreciation, depletion (excluding mineral reserve) and amortization	**66,501**	**16%**	79,096	17%	(12,595)	*(15)%*
Depletion of mineral reserve	**24,452**	**6%**	48,126	11%	(23,674)	*(75)%*
Cost of production	**416,184**	**100%**	436,188	99%	(20,004)	*(5)%*
Transportation	**47,742**		15,083		32,659	*217%*
Cost of resold goods	**2,920**		1,361		1,559	*115%*
Cost of rendering of services	**7,136**		7,572		(436)	*(6)%*
Change in finished goods	**(2,452)**		(16,884)		14,432	*(85)%*
Cost of sales	**471,530**		443,319		28,211	*6%*

Payroll and payroll taxes

Payroll including payroll taxes constitutes the largest item of our production cash costs and has remained at the level of 2012.

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 and related costs is summarized in the following table:

	2013	2012	Change	
	US$000	*US$000*	*US$000*	
Cost of production	**97,907**	**101,222**	(3,315)	*(3)%*
General and administrative expenses	**23,363**	**25,289**	(1,926)	*(8)%*
Other operating expenses	**9,126**	**3,499**	5,627	*161%*
Capitalized payroll	**7,482**	**9,569**	(2,087)	*(22)%*
Total payroll	**137,878**	**139,579**	(1,701)	*(1)%*
Total payroll taxes	**50,663**	**49,169**	1,494	*3%*
Effective payroll tax rate	***37%***	*35%*		
Average total number of employees	**8,135**	8,231	(96)	*(1)%*

The total average number of employees in 2013 decreased by 1% compared to 2012; the total payroll did not change significantly and remained at the level of 2012.

Payroll in other expenses increased by 161% as the wages of the Raspadskaya underground mine's workers were charged to other operating 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 5% increase in the MET in 2013 was as a result of the increase in production.

Materials and electricity

The increase in the cost of materials in 2013 by 27% compared to 2012 was driven mainly by an increase in coal production, including at Razrez Raspadsky open pit by 75%, and in coal preparation, as well as an increase in the distance of overburden transportation by 7%. A reduction in energy costs in 2013 by 10% was due to the implementation of measures to reduce consumption of electricity and the purchase of electricity under more favourable conditions.

Other costs and expenses

Other costs and expenses decreased by 12% in 2013 compared to 2012 due to a decrease in drilling-and-blasting services at Razrez Raspadsky as well as in equipment maintenance and repair services at Raspadskaya mine.

Depreciation, amortization and depletion of mineral reserves

Depreciation, amortization and depletion of mineral reserves comprises a significant portion of our cost of production - 22% and 29% in 2013 and 2012 respectively.

Depreciation decreased by 16% in 2013 compared to 2012, mainly as a result of completion of depreciation accruals at a number of large units at the Raspadskaya and Raspadskaya-Koksovaya mines. In addition, as a result of the production suspension at the Raspadskaya underground mine part of the depreciation charges were included in other operating expenses.

The decrease in depletion of mineral reserves by 49% compared to 2012 was mainly attributable to a revision of reserves, production plans and future capital investments in accordance with the IMC reserves evaluation.

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 2013, transport costs increased by US$32.7 million, or by 217% due to the increase in sales volumes under FOB and CFR terms.

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 2013, railroad tariffs increased by 7%.

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$51.5 million in 2013 (US$7.9 million in 2012).

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

Selling and distribution costs increased by US$41.1 million in 2013 compared to 2012, 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:

	2013		**2012**			
	Amount	**Portion**	**Amount**	**Portion**	**Change**	
	US$000		*US$000*		*US$000*	
Payroll	**23,363**	***39%***	25,289	*41%*	(1,926)	*(8)%*
Payroll taxes	**6,187**	***10%***	6,178	*10%*	9	*0%*
Other taxes	**8,932**	***15%***	9,669	*16%*	(737)	*(8)%*
Materials	**2,215**	***4%***	2,294	*4%*	(79)	*(3)%*
Other costs and expenses	**16,211**	***27%***	14,777	*24%*	1,434	*10%*
Depreciation and amortization	**2,740**	***5%***	3,345	*5%*	(605)	*(18)%*
	59,648	***100%***	61,552	*100%*	(1,904)	*(3)%*

Our general and administrative expenses decreased by 3%.

Payroll including payroll taxes makes up the most material part of our general and administrative expenses and accounts for 50% of the total costs. The decrease in payroll expense was due to reduction in working time of the administrative staff in the second half of 2013.

Taxes mainly consist of property tax. The tax reduction is attributable to conservation of a number of Raspadskaya mine’s facilities.

There was an increase in other expenses in items “Environment, Health and Safety”, “Environmental Activities”, “Repairs”, “Domestic Services”.

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 2013

Loss on disposal of fixed assets

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

Foreign exchange differences

Foreign exchange differences arise from revaluation of assets and liabilities in foreign currencies (primarily US dollars) and exchange of foreign currencies.

In 2013, foreign exchange losses amounted to US$33.3 million mainly on loans denominated in US dollars, as a result of the increase in the dollar exchange rate from 30.37 to 32.73, or by 8%.

Other operating income and expenses

Other operating income and expenses consist of atypical, non-recurring income and expenses. Other operating expenses were US$12.5 million higher in 2013 than in 2012, 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 31 December 2013, such costs amounted to US$206 million, US$183 million of which were included in other operating income and expenses (including US$9.6 million in 2013).

Interest income and interest expense

Interest income mainly related to deposits held in Russian banks. The US$4.3 million decrease in interest income in 2013 was mainly due to the reduction of available cash.

In 2013 and 2012, 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 increase in interest expenses of US$1.7 million in 2013 is as a result of the growth of borrowings from April 2012 from US$300 million to US$400 million and the increase in interest rate from 7.5% to 7.75%.

Income tax

Income tax in 2013 represented the difference between the tax accrued in the amount of US$20.2 million and the change in the deferred income tax assets and liability in the amount of US$45.0 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 following table:

	2013	**2012**	**Change**	
	US$000	*US$000*	*US$000*	
Loss for the period	**(126,156)**	(29,526)	(96,630)	*327%*
Adjusted for:				
Foreign exchange losses, net	**33,338**	(3,991)	37,329	*n/a*
Dividend income	**(60)**	(51)	(9)	*18%*
Interest income	**(4,344)**	(8,688)	4,344	*(50)%*
Interest expense	**45,087**	43,367	1,720	*4%*
Loss from PPE disposal	**4,637**	2,308	2,329	*101%*
Income tax	**(24,791)**	543	(25,334)	*n/a*
Adjusted EBIT	**(72,289)**	3,962	(76,251)	*n/a*
Adjusted for:				

Depreciation, depletion and amortization	**102,976**	137,330	(34,354)	*(25)%*
Capitalized depreciation	**(2,608)**	(4,837)	2,229	*(46)%*
Adjusted EBITDA	**28,079**	136,455	(108,376)	*(79)%*
Adjusted EBITDA margin	***5%***	*25%*		

(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

Indebtedness

Our indebtedness is set out in the following table:

	31-Dec-13	31-Dec-12	Change	
	US$000	*US$000*	*US$000*	
Long-term loans	**497,539**	546,533	(48,994)	*(9)%*
Short-term loans and current portion of long-term loans	**6,927**	7,145	(218)	*(3)%*
Debt	**504,466**	553,678	(49,212)	*(9)%*
Less:				
Short-term bank deposits	**-**	(112,689)	112,689	*(100)%*
Cash and cash equivalents	**(5,656)**	(7,731)	2,075	*(27)%*
	(5,656)	(120,420)	114,764	*(95)%*
Net debt	**498,810**	433,258	65,552	*15%*

As of 31 December 2013, the 7.75% Eurobonds and the intragroup loan in the amount of US$100 million from the EVRAZ group constituted the major part of our long-term debt.

As of 31 December 2013, Debt:LTM Adjusted EBITDA equalled 18x. As of the date of publication of the financial statements for 2013, 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 following table

	2013	2012	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	**53,370**	111,045	(57,675)	*(52)%*
Net cash from/(used in) investing activities	**35,227**	(113,482)	148,709	*n/a*
Net cash used in financing activities	**(89,210)**	(220,245)	131,035	*(59)%*
Effect of foreign exchange rate changes on cash and cash equivalents	**(1,461)**	50,313	(51,774)	*n/a*
Cash and cash equivalents at 31 December	**5,656**	7,731	(2,075)	*(27)%*

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 following table:

	31-Dec-13	31-Dec-12	Change	
	US$000	*US$000*	*US$000*	
Inventories	**73,063**	107,745	(34,682)	*(32)%*
Receivables	**61,346**	114,325	(52,979)	*(46)%*
Prepayments	**9,345**	9,981	(636)	*(6)%*
Taxes recoverable	**30,271**	15,243	15,028	*99%*
Less:				
Payables	**(75,650)**	(72,876)	(2,774)	*4%*
Taxes payable	**(23,448)**	(26,542)	3,094	*(12)%*
Advances	**(54)**	(20)	(34)	*170%*
Working capital	**74,873**	147,856	(72,983)	*(49)%*

Working capital decreased by US$72.9 million, or 49%.

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

Receivables decreased by US$53.0 million, mainly because of a decrease in sales volumes and prices in 4Q13 compared to 4Q12.

Taxes recoverable (mainly VAT) increased by US$15.0 million due to higher export sales.

Payables increased by US$2.7 million, mainly due to agreements with our major creditors on payment by instalments.

Taxes payable decreased by US$3.1 million due to the lower production volumes in 4Q13 compared to 4Q12.

Capital expenditure

Our capital expenditure is set out in the following table:

	2013	2012		
	Amount	Amount	Change	
Financing of investments, US$000	**83,181**	88,131	(4.950)	*(6)%*
Financing of investments per 1t of raw coal mined, US$	**10.6**	12.6	(2.0)	*(16)%*

In 2013, the 6% decrease in financing of investments vs. 2012 resulted from the revision of the H2 2013 production plan.

In 2014, financing of investments is planned at US$11 per tonne of raw coal.

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

In 2007, Raspadskaya was assigned ratings by two international rating agencies - Fitch Ratings and Moody's Investors Service Ltd. - which are reviewed by the rating agencies on an annual basis. There were several rating actions in 2013:

On 19 August 2013 Moody's Investors Service Ltd. downgraded the corporate credit rating of Raspadskaya to ‘B2’; Outlook Negative. The downgrade was caused mainly by the continued adverse conditions in the global steel and coal industry. Additionally, the revision of the corporate rating was influenced by the growth of costs per tonne of production as a result of the temporary suspension of production at the Raspadskaya underground mine in May 2013 and consequent adjustment of the production plans, one of the factors in the degradation of our financial performance in 2013.

On 3 October 2013, Fitch Ratings affirmed the long-term rating of Raspadskaya at “B+” level; Outlook Stable. Fitch Ratings noted that the index of independent credit capacity significantly deteriorated in 2013, but also noted strengthening of ties with the parent structure of EVRAZ plc.

On 27 December 2013, Moody's Investors Service Ltd. again revised its opinion on Raspadskaya’s credit rating and changed its outlook from “negative” to “stable”, mainly due to strengthening of the operational, financial, and fiscal ties between EVRAZ plc parent company and Raspadskaya in the process of the latter’s further integration into the EVRAZ group.

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.