MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our interim consolidated financial information for the six months ended 30 June 2007. The discussion and analysis covers comparative analysis of our 2007 historical interim consolidated financial information with our pro forma consolidated financial information for the same period from the prior year and our 2007 historical interim consolidated financial information with our 2006 historical interim consolidated financial information.

This discussion and analysis should be read in conjunction with our interim condensed consolidated financial information for the six months ended 30 June 2007 and our pro forma consolidated financial information for the six months ended 30 June 2006. The pro forma consolidated financial information for the six months ended 30 June 2006 has been prepared to present the Group's performance taking into account MUK Group Acquisition (as defined below) as if such acquisition had occurred on 1 January 2006. The pro forma consolidated financial information analysis is based on estimates and assumptions deemed reasonable by us and should be read in conjunction with our historical consolidated financial statements and related notes thereto. The pro forma consolidated financial information is presented for illustrative purposes only and may not, because of its nature, give a true picture of our financial position or results of operations. If the MUK Group Acquisition had occurred on 1 January 2006, our operating results might have been different from those presented below. The pro forma consolidated financial information should not be relied upon as an indication of the operating results that we would have achieved if the MUK Group Acquisition had occurred on 1 January 2006, nor should it be used as an indication of the results that we will achieve following the MUK Group Acquisition. Our future results of operations and financial position may differ materially from the pro forma amounts reflected in our pro forma consolidated financial information.

This discussion and analysis contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward looking statements as a result of numerous factors.

Overview

We conduct our business through 11 key subsidiaries located in the Kemerovo region of the Russian Federation in the Kuzbass. Our mining operations include two active underground mines, one underground mine under construction, one open-pit mine and a coal preparation plant, as well as industrial, maintenance and transportation infrastructure. We have leading market positions in Russia with respect to the coal that we produce, which consists of several different types of coking coal, in particular, Zh (fat), GZh (gas fat) and GZhO (gas fat semi-lean) coal. According to Economic and Energy Consultants Limited (IMC), as of 30 June 2006, we had total proved and probable reserves of approximately 781.5 million tonnes of which 5.5 and 6.6 million tonnes were extracted in the second half of the year 2006 and in the first half of the year 2007, respectively.

The Reorganisation

In 2006 we undertook a corporate reorganisation (the 'Reorganisation') in order to consolidate and purchase certain coal mining assets and simplify our corporate structure. The Reorganisation resulted in us (i) acquiring 100 per cent equity interests in Raspadskaya Preparation Plant, Raspadskaya Coal Company, Raspadskiy Ugol and Raspadskaya Koksovaya (each an 'Acquired Company,' and collectively, the 'Acquired Companies') historically owned by Corber Enterprises Limited, and (ii) acquiring a 100 per cent equity interest in MUK-96 and its 99 per cent owned subsidiary Razrez Raspadsky (the 'MUK Group Acquisition'), both historically controlled by Adroliv or Adroliv's affiliates. In addition, in March 2006, ZAO Raspadskaya was reorganised into an open joint stock company OAO Raspadskaya.

The Reorganisation involved the following steps:

Acquired Companies Transaction

- On 16 June 2006, we entered into an agreement to acquire the Acquired Companies from Corber Enterprises Limited for the aggregate amount of U.S.$306.9 million. We financed such acquisition with our own funds of U.S.$6.9 million and a U.S.$300.0 million loan of 6 July 2006 from Natixis Banques Populaires and ZAO Bank Natixis ('Natixis'). Prior to such acquisition, the Corber Enterprises Limited owned a 100 per cent equity interest in each Acquired Company.

MUK Group Acquisition

- On 14 September 2006, we acquired a 100 per cent equity interest in MUK-96 from Corber Enterprises Limited in exchange for 300,650,000 of our newly issued ordinary shares. The new shares were issued to Corber Enterprises Limited in a closed subscription approved by our shareholders at a general meeting of shareholders on 8 June 2006. The transaction was completed on 3 October 2006 when the placement report on the share issuance was registered by the Federal Financial Markets Service (the 'FFMS'). MUK-96 holds a 99 per cent ownership interest in Razrez Raspadsky. The remaining 1 per cent interest is held by Raspadskiy Ugol. Our *pro forma* consolidated statements present the operations results that we would have achieved if MUK Group had occurred on 1 January 2006.

Summary of Historical Acquisitions

In the past, we have acquired controlling interests in certain coal-related services, transportation and infrastructure companies.

The table below sets forth our ownership share in those subsidiaries:

	Year of Acquisition of Controlling Interest	% Held as of 30 June 2007
OOO Raspadskaya-Joy	1992	100.00%
OOO Montazhnik Raspadskoy	1999	51.00%
OAO Tomusinskoye Cargo Handling Unit ('TPTU')	2000	58.59%
OAO Olzherasskoye Shaft-Sinking Unit ('OShPU')	2003	95.12%
OOO Puteets	2004	100.00%

2007 Interim Consolidated Financial Information vs. 2006 Interim *Pro forma* Consolidated Financial Information

General

The discussion and analysis below is based on our historical interim consolidated financial information for the six months ended 30 June 2007 and our *pro forma* consolidated financial information for the six months ended 30 June 2006. The *pro forma* consolidated financial information has been prepared by the application of *pro forma* adjustments related to the MUK Group Acquisition to our historical consolidated financial statements. Our *pro forma* consolidated financial information for the six months ended 30 June 2006 gives effect to the MUK Group Acquisition as if it had occurred as of 1 January 2006. For discussion and analysis of our historical consolidated financial conditions and results of operations please see section **"2007 Interim Consolidated Financial Information vs. 2006 Interim Consolidated Financial Information"** below.

MUK-96 and Razrez Raspadsky historically had significant production and trading operations with Raspadskaya and its subsidiaries, which affected the trading results of Raspadskaya reflected in the IFRS historical consolidated financial statements. Therefore, we believe that for the periods ended prior to 31 December 2006 our *pro forma* consolidated financial information forms the most relevant basis for the analysis of the results of operations of our group. The *pro forma* consolidated financial information presents the view of our business taken as a whole while our historical consolidated financial statements for the periods ended prior to 31 December 2006 provide only a partial view of our business and our operating results and shall be analysed only in conjunction with our *pro forma* consolidated financial information.

In addition, MUK-96 and Razrez Raspadsky have not prepared on a regular basis historical IFRS standalone financial statements. For the purposes of preparing the *pro forma* consolidated financial information included in this discussion and analysis, MUK-96 and Razrez Raspadsky compiled their historical financial information in accordance with IFRS except for property, plant and equipment which were accounted for at their fair values determined as at 31 May 2006. The depreciation and depletion charges for the six months ended 30 June 2006 were determined using a roll-back of property, plant and equipment from 31 May 2006 to 1 January 2006.

All references to the amounts for the six months ended 30 June 2006 in section **"2007 Interim Consolidated Financial Information vs. 2006 Interim *Pro forma* Consolidated Financial Information"** relate to the amounts complied or calculated on a *pro forma* basis.

Certain 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 other, the demand for coking coal, coking coal prices, production costs, exchange rates and social expenses.

Demand and supply of coking coal

Our results of operations are significantly dependent upon the demand/supply balance of coking coal on the domestic and world markets. This balance is primarily influenced by fluctuations in the steel industry and steel production, changes in coal production capacity and other related factors. The major consumers of our coking coal are large domestic and foreign steel producers. Therefore, our results of operations are influenced by the trends in the Russian and world steel markets. Cyclical fluctuations in the steel industry in the future will continue to affect our sales of raw coal and coal concentrate.

The major portion of our revenues is derived from sales to large domestic steel producers such as Magnitogorsk Iron and Steel Plant ('MMK'), Evraz (standing for several iron and steel plants) and Novo-Lipetsk Iron and Steel Plant ('NLMK', including Altay Koks, a subsidiary of NLMK from 2006). The share of sales to these plants accounted for approximately 55 per cent and 66 per cent of our total raw coal and coal concentrate sales for the six months ended 30 June 2007 and 2006, respectively. Also, the share of export sales increased in the six months ended 30 June 2007 as compared with the six months ended 30 June 2006 and accounted for 30 per cent and 12 per cent of our total raw coal and coal concentrate sales, respectively.

Our results of operations are indirectly affected by the increase in the coal production capacities by our competitors. Nonetheless, we believe that the risk of any significant step-up of the Russian metallurgical coal capacity in the short- and mid-term remains limited.

Coking coal prices

Both domestic and world prices for coking coal have a material impact on our results of operation. The average prevailing coking coal price is determined by supply contracts with various industrial customers.

The table below represents the movement in our coal prices:

	For the six months ended 30 June		
	2007	**2006**	**% change**
	(in U.S. dollars per tonne, except percentages, FCA)		
Coal concentrate—average domestic price	68.0	60.9	12%
Coal concentrate—average export price	59.5	49.2	21%
Average sales price of concentrate	**64.9**	**59.1**	**10%**
Raw coal—average domestic price	35.0	35.1	(0)%
Raw coal—average export price	n/a	32.7	n/a
Average sales price of raw coal	**35.0**	**35.0**	**(0)%**

Domestic prices for our raw coal and coal concentrate were generally higher than export prices.

We do not hedge our exposure to the risk of fluctuations in the price of coal for the lack of hedging instruments. Consistent with industry practice, our coal sales contracts fix the sale price and the price for coal is set periodically based upon negotiations between the parties.

Sales volumes

The table below sets forth the volumes of our raw coal and coal concentrate sales on the domestic and export markets:

	For the six months ended 30 June		
	2007	**2006**	**% change**
	(in thousands of tonnes, except percentages)		
Sales of coal concentrate Russia	2,731	2,681	2%
Sales of coal concentrate export	1,559	494	216%
Total sales of coal concentrate	**4,290**	**3,175**	**35%**
Sales of raw coal Russia	811	620	31%
Sales of raw coal export	-	30	n/a
Total sales of raw coal	**811**	**650**	**25%**
Total sales of raw coal and coal concentrate [(1)]	**4,890**	**3,663**	**33%**

(1) Raw coal restated in tonnes of coal concentrate at output ratio of app. 74 and 75 per cent for the six months ended 30 June 2007 and 2006, respectively

For the six months ended 30 June 2007 as compared to the six months ended 30 June 2006 our sales volumes of coal concentrate increased by 35 per cent and of raw coal by 25 per cent in line with our strategy on increasing higher-margin coal concentrate production.

The increase in export sales volumes of coal concentrate in the six months ended 30 June 2007 as compared with the six months ended 30 June 2006 by 216 per cent is mainly a consequence of the increase in our sales in the Ukrainian market.

Production volumes

Our production costs and costs per unit are significantly affected by the changes in production volumes. A significant proportion of our costs can be classified as fixed costs and, therefore, our production level is one of the key factors in determining our overall cost competitiveness.

The table below sets forth our coal production:

	For the six months ended 30 June		
	2007	**2006**	**% change**
	(in thousands of tonnes, except percentages)		
Raw coal produced by Raspadskaya mine	4,462	3,446	29%
Raw coal produced by Razrez Raspadsky	1,389	1,056	32%
Raw coal produced by MUK-96	758	633	20%
Total raw coal production	**6,609**	**5,135**	**29%**
Raw coal preparation	5,839	4,301	36%
Coal concentrate production	4,338	3,223	35%

Production volumes increased by 29 per cent in the six months ended 30 June 2007 as compared with the six months ended 30 June 2006. Along with this, the share of coal concentrate in total production volumes was 88 per cent and 84 per cent in the six months ended 30 June 2007 and 2006

Production costs and efficiency

Our competitiveness and long-term profitability are, to a significant degree, dependent upon our ability to maintain low-cost and efficient operations.

The table below sets forth the total cash cost of production [(1)]:

	For the six months ended 30 June		
	2007	2006	% change
	(in thousands of U.S. dollars)		
Cost of revenues	**143,129**	**114,291**	**25%**
Less:			
Cost of other resold goods	(742)	(99)	649%
Change in finished goods	2,478	2,533	(2)%
Depreciation, depletion and amortization	(61,959)	(43,679)	42%
Total cash cost of production less depreciation, depletion and amortization	**82,906**	**73,046**	**13%**
Including:			
Total cash cost of raw coal production	70,559	62,777	12%
Total cash cost of preparation	12,347	10,269	20%

(1) Cash cost of production represents cost of sales before cost of resold goods, changes in finished goods and depreciation, depletion and amortisation. We present cash cost of production and other measures calculated using cash cost of production because we consider them important supplemental measures of our operating performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Cash cost of production and other measures calculated using cash cost of production have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our operating results as reported under IFRS. We compensate for these limitations by relying primarily on our IFRS operating results and using cash cost measures only supplementally. Cash cost of production and other measures calculated using cash cost of production are measures of our operating performance that is not required by, or presented in accordance with, IFRS. Cash cost of production and other measures calculated using cash cost of production are not measurement of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS.

The table below sets forth our cash cost of raw coal produced:

	For the six months ended 30 June		
	2007	2006	% change
	(in thousands of U.S. dollars, except percentages)		
Cash cost of raw coal produced by Raspadskaya mine	48,245	44,309	9%
Cash cost of raw coal produced by Razrez Raspadsky	11,987	11,852	1%
Cash cost of raw coal produced by MUK-96	10,327	6,616	56%
Total cash cost of raw coal production	**70,559**	**62,777**	**12%**
	(in U.S. dollars per tonne, except percentages)		
Cash cost per tonne of raw coal produced by Raspadskaya mine	10.8	12.9	(16)%
Cash cost per tonne of raw coal produced by Razrez Raspadsky	8.6	11.2	(23)%
Cash cost per tonne of raw coal produced by MUK-96	13.6	10.4	31%
Total cash cost per tonne of raw coal produced	**10.7**	**12.2**	**(12)%**

Cash costs associated with raw coal production comprise the major portion of our costs and can be broadly categorised into costs attributable to payroll of production personnel and related taxes, materials and utilities.

The salary and costs of materials increase related to the production growth as well as increase in the mineral extraction tax were the main factors which contributed to the increase in our cost of coal production in the six months ended 30 June 2007. However, cancellation of the overburden removal outsourcing at Razrez Raspadsky and lower equipment maintenance expense were key factors contributing to the decrease in our costs of coal production.

The significant decrease in the cash cost per tonne of raw coal at Raspadskaya mine is a consequence of the 29 per cent increase in raw coal production. The cessation of outsourcing of the overburden removal to the third parties and the 32 per cent increase in raw coal production allowed us to reduce the cash cost per tonne of raw coal at Razrez Raspadsky in the six months ended 30 June 2007 in comparison with the six months ended 30 June 2006. The increase of the cash cost of raw coal production at MUK-96 mine was due to the lengthening of the period of the longwall mine pre-exploitation preparation and related to it substantial fixed costs in the six months ended 30 June 2007.

The table below sets forth our coal concentrate production and costs of preparation [(1)]:

	For the six months ended 30 June		
	2007	2006	% change
	(in thousands of tonnes, except percentages)		
Raw coal used in concentrate preparation	5,839	4,301	36%
Coal concentrate produced	4,338	3,223	35%
Output ratio	74%	75%	97%
	(in thousands of U.S. dollars, except percentages)		
Estimated cash cost of raw coal used in concentrate preparation [(2)]	62,477	52,472	19%
Cash cost of preparation	12,347	10,269	20%
Total cash cost of coal concentrate produced	**74,824**	**62,741**	**19%**
	(in U.S. dollars per tonne, except percentages)		
Preparation cash cost per tonne of raw coal used	2.1	2.4	(13)%
Preparation cash cost per tonne of coal concentrate produced	2.8	3.2	(13)%
Total cash cost per tonne of coal concentrate produced	**17.2**	**19.5**	**(12)%**

(1) Cash costs exclude depreciation, depletion and amortization
(2) Estimated cash cost per tonne of raw coal used in concentrate preparation is a computed value calculated based on the volumes of raw coal used in concentrate preparation and the weighted average cash cost per tonne of raw coal produced.

The table below sets forth our preparation costs of concentrate produced and of raw coal processed (less depreciation, depletion and amortization):

	For the six months ended 30 June		
	2007	2006	% change
	(in thousands of tonnes, except percentages)		
Raw coal prepared by Raspadskaya Preparation Plant	5,013	3,442	46%
Raw coal prepared by third parties	826	859	(4)%
Total raw coal preparation	**5,839**	**4,301**	**36%**
Coal concentrate produced by Raspadskaya Preparation Plant	3,755	2,596	45%
Coal concentrate produced by third parties	583	627	(7)%
Total coal concentrate produced	**4,338**	**3,223**	**35%**
	(in thousands of U.S. dollars, except percentages)		
Cash cost of preparation by Raspadskaya Preparation Plant	7,596	4,409	72%
Cash cost of preparation by third parties	4,751	4,083	16%
Transportation	-	1,777	n/a
Total cost of preparation	**12,347**	**10,269**	**20%**
	(in U.S. dollars per tonne, except percentages)		
Preparation cost per tonne of raw coal used by Raspadskaya Preparation Plant	1.5	1.3	15%
Preparation cost per tonne of raw coal used by third parties	5.8	4.8	21%
Transportation cost per tonne of raw coal used by third parties	-	2.1	(100)%
Preparation cost per tonne of coal concentrate produced by Raspadskaya Preparation Plant	2.0	1.7	18%
Preparation cost per tonne of coal concentrate produced by third parties	8.1	6.5	25%
Transportation cost per tonne of coal concentrate produced by third parties	-	2.8	(100)%

The preparation cash cost per tonne of raw coal used for concentrate production varies depending on the preparation plant, mainly due to higher cost of the preparation at the third party plants and related transportation costs.

The share of coal prepared by Raspadskaya Preparation Plant in the total volume of prepared coal was 86 per cent and 80 per cent in the six months ended 30 June 2007 and 2006, respectively.

Railway costs

All of the raw coal and coal concentrate which we sell is transported by railway. We are among few Russian coal producers that own and operate an integrated coal transportation network that is directly connected to the federal railway system operated by Russian Railways. Our proprietary coal transportation network is operated by our subsidiary TPTU and includes 15 kilometres of railway which connects our production facilities with the federal railway station at Mezhdurechensk, Kemerovo region of the Russian Federation.

From the Mezhdurechensk railway station, our coal concentrate and raw coal is transported for final delivery to customers by Russian Railways via the federal railway system. As transportation costs are usually paid by our customers, fluctuations of the railway tariffs affect the total cost paid by our customers, and as such, may impact the demand for our coal from any customers located far from our production site.

Exchange rates and inflation rates

Our functional currency is the Russian ruble. Our presentation currency is the U.S. dollar. Our revenues from the domestic sales accounted for 70 per cent and 88 per cent of total raw coal and coal concentrate sales for the six months ended 30 June 2007 and for the six months ended 30 June 2006, respectively. Prices for domestic sales are set in rubles. Most of our costs except for certain equipment purchased are also denominated in rubles.

In recent years, the U.S. dollar has depreciated against the ruble. This depreciation has increased our revenues and costs presented in U.S. dollar terms in our consolidated financial statements.

Production facilities maintenance

Our activities are dependent upon our ability to maintain steady production levels. Therefore, the maintenance of our mining equipment and overall facilities, as well as ensuring safe working conditions for our personnel is crucial for the results of our operations. As one of our top priorities, we place an emphasis on keeping our mining equipment in high quality condition and on creating a healthy and safe working environment at each of our facilities through the implementation of stringent safety measures.

Overview of the Results of Operations for the Six Months ended 30 June 2007 and 2006

The table below sets forth our consolidated income statement for the six moths ended 30 June 2007 and *pro forma* consolidated income statements for the six months ended 30 June 2006:

	For the six months ended 30 June		
	2007	**2006**	**% change**
	(in thousands of U.S. dollars, except percentages)		
Sale of goods	335,761	216,394	55%
Rendering of services	3,073	1,923	60%
Revenue	**338,834**	**218,317**	**55%**
Cost of revenues	(143,129)	(114,291)	25%
Gross profit	**195,705**	**104,026**	**88%**
Gross profit margin	**58%**	**48%**	
Selling and distribution costs	(32,554)	(5,915)	450%
General and administrative expenses	(25,619)	(18,779)	36%
Social and social infrastructure maintenance expenses	(3,215)	(2,853)	13%
Gain (loss) on disposal of property, plant and equipment	(1,114)	(471)	137%
Foreign exchange gains/(losses), net	5,505	694	693%
Other operating income	446	1,159	(62)%
Other operating expenses	(3,027)	(2,038)	49%
Dividend income	4	-	n/a
Interest income	2,068	544	280%
Interest expense	(15,659)	(5,291)	196%
Profit before income tax	**122,540**	**71,076**	**72%**
Profit before income tax margin	**36%**	**33%**	
Income tax expense	(32,121)	(20,131)	60%
Profit for the year	**90,419**	**50,945**	**77%**
Profit for the year margin	**27%**	**23%**	

Revenue

The table below summarises our domestic and export revenues by product types:

	For the six months ended 30 June				
	2007		2006		
	Amount	**% of total revenue**	**Amount**	**% of total revenue**	**% change**
	(In thousands of U.S. dollars, except percentages)				
Sales of coal concentrate Russia	185,738	61%	163,367	78%	14%
Sales of coal concentrate export	92,800	30%	24,345	11%	281%
Total sales of coal concentrate	**278,538**	**91%**	**187,712**	**89%**	
Sales of raw coal Russia	28,348	9%	21,762	10%	30%
Sales of raw coal export	-	0%	989	1%	n/a
Total sales of raw coal	**28,348**	**9%**	**22,751**	**11%**	
Total sales of raw coal and coal concentrate	**306,886**	**100%**	**210,463**	**100%**	**46%**
Sale of other goods and rendering of services	**31,948**		**7,854**		**307%**
Total sales	**338,834**		**218,317**		**55%**

Approximately 90 per cent of our revenues for the six months ended 30 June 2007 were derived from sales of raw coal and coal concentrate. The major portion of our raw coal and coal concentrate sales is related to our Russian customers who primarily include large metal and steel plants. Our major customers in 2007 and 2006 were Evraz, MMK, and NLMK (including Altay Koks). The share of sales to these plants accounted for approximately 55 per cent and 66 per cent of our total raw coal and coal concentrate sales for the six months ended 30 June 2007 and 2006, respectively. Also, the share of export sales increased in the six months ended 30 June 2007 as compared with the six months ended 30 June 2006 and accounted for 30 per cent and 12 per cent of our total raw coal and coal concentrate sales, respectively.

Export sales increased by 281 per cent in the six months ended 30 June 2007 as compared to the six months ended 30 June 2006. The increase reflects a favourable situation in the Ukrainian market which accounts for the major portion of our export sales.

Sales of other goods and rendering of services increased by 307 per cent as a consequence of the increase in the sales on DAF and FOB terms. Sales of other goods and rendering of services includes railway tariffs recharged to customers, transportation services of TPTU provided to local producers, sales of various goods and service revenues of our group. Railway tariff represents the costs of the transportation services of external providers. The costs are included in the prices of coal and coal concentrate sold.

Cost of revenues

The table below sets forth the breakdown of cost of revenues by major categories:

	For the six months ended 30 June				
	2007		2006		
	Amount	**% of production costs**	**Amount**	**% of production costs**	**% change**
	(in thousands of U.S. dollars, except percentages)				
Depreciation, depletion and amortization	61,959	43%	43,679	37%	42%
Payroll	26,573	18%	24,240	21%	10%
Materials	21,840	15%	18,267	16%	20%
Mineral extraction tax and other taxes in production costs	8,122	6%	6,696	6%	21%
Payroll taxes	7,686	5%	6,668	6%	15%
Electricity	6,948	5%	5,389	5%	29%
Preparation services from third parties	4,751	3%	4,083	3%	16%
Transportation	-	0%	1,777	2%	n/a
Other services and costs	6,986	5%	5,926	4%	18%
Cost of production	**144,865**	**100%**	**116,725**	**100%**	**24%**
Cost of other resold goods	742		99		649%
Change in finished goods	(2,478)		(2,533)		(2)%
Cost of revenues	**143,129**		**114,291**		**25%**

Depreciation, depletion and amortisation

The table below sets forth our depreciation, depletion and amortisation:

	For the six months ended 30 June		
	2007	**2006**	**% change**
	(in thousands of U.S. dollars, except percentages)		
Depreciation, depletion (excluding mineral reserve) and amortisation	34,246	23,572	45%
Depletion of mineral reserve	29,283	20,407	43%
Total	**63,529**	**43,979**	**44%**

The increase in the depreciation expenses was a consequence of the increase in the value of the property, plant and equipment at Raspadskaya and MUK-96 mines. The increase in the depletion expenses was due to the increase in the production volumes.

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Payroll and payroll taxes

Payroll and related payroll taxes accounted for 23 per cent and 27 per cent of production costs for the six months ended 30 June 2007 and 2006, respectively.

The table below sets forth our payroll costs and related payroll taxes:

	For the six months ended 30 June		
	2007	**2006**	**% change**
Average total number of employees	7,390	7,148	3%
Total net payroll *(in thousands of U.S. dollars)*	42,522	36,232	17%
Total payroll taxes *(in thousands of U.S. dollars)*	11,119	9,537	17%
Average annual payroll per employee, net *(in U.S. dollars)*	11,508	10,138	14%
Effective payroll tax rate, %	26%	26%	

The increase of the payroll costs for the six months ended 30 June 2007 as compared to the six months ended 30 June 2006 reflected the higher headcount number, the labour cost inflation in the period and ruble appreciation against US dollar.

The payroll taxes contain Unified Social Tax (UST) and mandatory industrial accident and occupational disease insurance charges. UST includes our regular contributions to the State Pension Fund in accordance with the Russian legislation. We have no legal or constructive obligation to pay further contributions in respect of these benefits.

Preparation services

Costs associated with coal preparation by third parties included the coal preparation services related to the delivery of raw coal to the preparation plants. The costs of coal preparation services by third parties accounted for 3 per cent of the total production costs for the six months ended 30 June 2007 and 2006. The increase in these costs was a consequence of the increased charges of coal preparation services by third parties.

Mineral extraction tax and other taxes in production costs

Taxes included in production costs primarily include the mineral extraction tax. The mineral extraction tax and other taxes accounted for 6 per cent of production costs for the six months ended 30 June 2007 and 2006. The increase in the mineral extraction tax was a consequence of the increase in raw coal production.

Materials and electricity

The increase in materials and electricity in the six months ended 30 June 2007 was primarily caused by the higher prices and tariffs as compared with the six months ended 30 June 2006. Also, the increased consumption of fuel, lubricants and electricity was caused primarily by the increase in production of raw coal in six months ended 30 June 2007 as compared with six months ended 30 June 2006.

Other services and costs

Other services and costs accounted for 5 and 4 per cent of production costs for the six months ended 30 June 2007 and 2006, respectively. The increase in other services and costs was mainly driven by the increase in coal preparation services and as a consequence by the increased waste removal expenses to the third parties.

Selling, general and administrative and other expenses

Selling and distribution costs

Selling and distribution costs included customs fees pertaining to the export sales as well as various expenses related to transportation of our products, mainly the transportation of coal concentrate sold to NLMK on terms FCA Lipetsk and FOB and DAF for our export sales.

General and administrative expenses

The table below sets forth our general and administrative expenses:

	For the six months ended 30 June				
	2007		2006		
	Amount	**% of total**	**Amount**	**% of total**	**% change**
	(In thousands of U.S. dollars, except percentages)				
Payroll	12,945	51%	8,724	46%	48%
Property and other taxes	3,231	13%	3,139	17%	3%
Payroll tax	2,641	10%	2,020	11%	31%
Raw materials	719	3%	384	2%	87%
Insurance	344	1%	305	2%	13%
Depreciation and amortisation	758	3%	300	2%	153%
Other services and costs	4,981	19%	3,907	21%	27%
Total	**25,619**	**100%**	**18,779**	**100%**	36%

The increase in our general and administrative expenses in the six months ended 30 June 2007 as compared to the six months ended 30 June 2006 resulted primarily from the increased activity of our managing company, Raspadskaya Coal Company. The increased activity resulted in increased employees' bonuses as well as higher headcount of management and administrative personnel.

The increase in payroll and related taxes for the six months ended 30 June 2007 was primarily due to the increase in the number of administrative personnel and the average pay per employee by 9 per cent and 25 per cent, respectively, in comparison to the six months ended 30 June 2006.

Taxes included property tax and other taxes. The increase in the property tax expenses was mainly a consequence in the increase in the value of the property, plant and equipment.

Other services and costs including bank services, information, communication, consulting, audit and other fees increased owing to the increased audit and consulting fees and to various one time administrative costs.

Social and social infrastructure maintenance expenses

Similarly to many of the large Russian production companies, we bear certain social costs and social infrastructure maintenance expenses primarily in the form of donations and assistance to social sphere objects. Social and social infrastructure maintenance expenses increased from U.S.$2.9 million for the six months ended 30 June 2006 to U.S.$3.2 million for the six months ended 30 June 2007.

Loss on disposal of property, plant and equipment

Loss on disposal of property, plant and equipment was U.S.$1.1 million and U.S.$0.5 million for the six months ended 30 June 2007 and 2006, respectively.

Foreign exchange gains (losses), net

Foreign exchange gains and losses relate to translation difference arising from revaluation of assets and liabilities denominated in foreign currencies (primarily U.S. dollar denominated loans) and exchange rate differences on sales and purchase of foreign currencies. Foreign exchange gain for the six months ended 30 June 2007 was due to the revaluation of the U.S.$300 million loan from Natixis.

Other operating income (expenses)

Other net operating income (expenses) mainly consists of revenues and costs associated with non-core aspects of our business such as rent and other non-recurring items. Other net operating expenses increased from U.S.$2.0 million for the six months ended 30 June 2006 to U.S.$3.0 million for the six months ended 30 June 2007.

Interest income

Interest income and related to short-term deposits held in various banks. The deposits were held for the short-term assets and liabilities management purposes. The deposits were held with Sberbank, CB Garant-Invest and Vneshtorgbank.

Interest expense

Our interest expense primarily related to interest on loans of U.S.$14.9 million and U.S.$3.8 million for the six months ended 30 June 2007 and 2006, respectively. Interest expense related mainly to interest expenses on loans obtained by Raspadskaya from Natixis, by Raspadskaya Preparation Plant from SB RF as well as the coupon payments on Eurobonds.

Income tax expense

Our income tax expense was U.S.$32.1 million and U.S.$20.1 million for the six months ended 30 June 2007 and 2006, respectively. The substantial increase in income tax was a result of higher profits in the six months ended 30 June 2007.

Profit for the period

Our profit for the period for the six months ended 30 June 2007 increased by U.S.$39.5 million as compared to the six months ended 30 June 2006 and amounted to U.S.$90.4 million against U.S.$50.9 million, respectively, reflecting the same trends as gross profit and profit before tax.

EBITDA

The following table sets forth our EBITDA[1] calculation:

	For the six months ended 30 June	
	2007	**2006**
	(In thousands of U.S. dollars, except percentages)	
Net profit	**90,419**	**50,945**
Adjusted for:		
Depreciation, depletion (excluding mineral reserve) and amortisation[2]	33,434	23,572
Depletion of mineral reserve	29,283	20,407
Dividend income	(4)	-
Interest income	(2,068)	(544)
Interest expense	15,659	5,291
Income tax expense	32,121	20,131
EBITDA	**198,844**	**119,802**
EBITDA, % of revenue	**59%**	**55%**

(1) EBITDA represents net profit before interest income (expense), dividend income, income taxes and depreciation, depletion and amortisation. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under *pro forma* financial statements and historical consolidated IFRS financial statements. We compensate for these limitations by relying primarily on our historical IFRS and *pro forma* operating results and are using EBITDA only as a supplement. EBITDA is a measure of our operating performance that is not required by or presented in accordance with IFRS. EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to profit for the period, profit before income tax or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) Depreciation, depletion (excluding mineral reserve) and amortisation for the six months ended 30 June 2007 includes charges relating to cost of sales and general and administrative expenses amounting to U.S.$62.0 million and U.S.$0.8 million, respectively. Depreciation, depletion (excluding mineral reserve) and amortisation for the six months ended 30 June 2006 includes charges relating to cost of sales and general and administrative expenses amounting to U.S.$43.7 million and U.S.$0.3 million, respectively.

2007 Interim Consolidated Financial Information vs. 2006 Interim Consolidated Financial Information

General

Our IFRS historical unaudited income statements present the financial results and results of operations of Raspadskaya and its subsidiaries. The results of operations of MUK-96 and Razrez Raspadsky are not included in our historical unaudited income statements before 31 May 2006 and included from 1 June 2006. Historically, Raspadskaya had significant trading and production operations with MUK-96 and Razrez Raspadsky. See section **"The Reorganisation"** above for further details.

We believe that our *pro forma* consolidated financial information forms the most relevant basis for the analysis of our results of operations for the six months ended 30 June 2006. Our *pro forma* consolidated financial information for the six months ended 30 June 2006 presents the view of our business taken as a whole while our historical consolidated financial statements for that period provide only a partial view on our business and operating results and shall be analysed only in conjunction with the *pro forma* consolidated financial information.

All references to the amounts for the six months ended 30 June 2006 in section **"2007 Interim Consolidated Financial Information vs. 2006 Interim Consolidated Financial Information"** relate to the amounts complied or calculated on a historical basis.

Overview of the IFRS Results of Operations for the Six Months ended 30 June 2007 and 2006

The table below sets forth our IFRS historical income statement:

	For the six months ended 30 June		
	2007	**2006**	**% change**
	(In thousands of U.S. dollars, except percentages)		
Revenue	338,834	221,618	53%
Cost of revenues	(143,129)	(134,724)	6%
Gross profit	**195,705**	**86,894**	**125%**
Gross profit margin	**58%**	**39%**	
Selling and distribution costs	(32,554)	(5,915)	450%
General and administrative expenses	(25,619)	(16,558)	55%
Social and social infrastructure maintenance expenses	(3,215)	(2,853)	13%
Gain (loss) on disposal of property, plant and equipment	(1,114)	(471)	137%
Foreign exchange gain (loss), net	5,505	(275)	(2102)%
Other operating income	446	1,159	(62)%
Other operating expenses	(3,027)	(2,360)	28%
Dividend income	4	-	n/a
Interest income	2,068	434	376%
Interest expense	(15,659)	(4,221)	271%
Profit before income tax	**122,540**	**55,834**	**119%**
Profit before income tax margin	**36%**	**25%**	
Income tax expense	(32,121)	(15,436)	108%
Profit for the year	**90,419**	**40,398**	**124%**
Profit for the year margin	**27%**	**18%**	

Revenue

Revenue for the six months ended 30 June 2007 increased by U.S.$117.2 million, or 53 per cent, to U.S.$338.8 million from U.S.$221.6 million for the six months ended 30 June 2006. The increase was mainly due to the 10 per cent increase in average coal and coal concentrate prices and due to the 33 per cent increase in sales of coal and coal concentrate. The portion of the export sales increased and amounted to 30 per cent for the six months ended 30 June 2007 as compared to 12 per cent for the six months ended 30 June 2006.

Revenue shown in the IFRS historical income statement for the six months ended 30 June 2006 is U.S.$3.3 million higher than that shown in the *pro forma* income statement for the same period due to the eliminating in our *pro forma* income statement certain revenues received by Raspadskaya and its subsidiaries from MUK-96 in the period from 1 January 2006 to 31 May 2006.

Cost of revenues

Cost of revenues is primarily comprised of payroll of production personnel and related taxes, materials, depreciation, depletion and amortisation and other services related to our coal mining. The cost of revenue for the six months ended 30 June 2007 increased by U.S.$7.7 million, or 6 per cent, to U.S.$143.1 million from U.S.$134.7 million for the six months ended 30 June 2006. The increase was primarily attributable to the increase in payroll and payroll tax expenses, as well as the increase in material, electricity costs and the mineral extraction tax expenses as a consequence of the growth of production volumes.

Cost of revenues as shown in our IFRS historical income statement is U.S.$20.4 million higher for the six months ended 30 June 2006 than in the *pro forma* income statements for the period. This is due to the eliminating of sales of coal concentrate by RFPK to Raspadskiy Ugol and preparation and mining services by Razrez Raspadsky in the *pro forma* income statement for those periods. Since June 2006 RFPK ceased operating as a trade agent of MUK-96 and purchases of coal concentrate were eliminated.

Selling and distribution costs

Selling and distribution costs increased to U.S.$32.6 million for the six months ended 30 June 2007 from U.S.$5.9 million for the six months ended 30 June 2006 and included customs fees pertaining to the export sales as well as various expenses related to transportation of our products, mainly the transportation of coal concentrate sold to NLMK on terms FCA Lipetsk and FOB and DAF for our export sales.

General and administrative expenses

General and administrative expenses primarily include payroll of management and administrative and finance personnel, related taxes, pension costs, property tax, land tax, transportation tax, land lease payments and pollution taxes. General and administrative costs for the six months ended 30 June 2007 increased by U.S.$9.1million, or 55 per cent, to U.S.$25.6 million from U.S.$16.6 million for the six months ended 30 June 2006. The increase was primarily the result of expanded operations by Raspadskaya Coal Company and increased compensation to employees.

General and administrative expenses are higher as shown in our *pro forma* income statement due to additional expenses incurred by administrative and accounting personnel of MUK-96 and Razrez Raspadsky in the period from 1 January 2006 to 31 May 2006.

Social and social infrastructure maintenance expenses

Social and social infrastructure maintenance expenses normally comprise voluntary and discretionary charity and donations to social sphere objects and non-profit organizations, social development funds and assistance to the administration.

Other operating income (expenses)

Other net operating income (expenses) consists primarily of revenues and costs associated with non-core aspects of our business such as rent and various non-recurring expenses. Other net operating expenses increased from U.S.$1.2 million for the six months ended 30 June 2006 to U.S.$2.6 million for the six months ended 30 June 2007.

Interest income

Interest income increased by U.S.$1.6 million, or 376 per cent, to U.S.$2.1 million for the six months ended 30 June 2007 from U.S.$0.4 million for the six months ended 30 June 2006. The increase was due to the cash available for investing in short-term bank deposits.

Interest expense

Interest expense for the six months ended 30 June 2007 increased by U.S.$11.4 million, or 271 per cent, to U.S.$15.7 million from U.S.$4.2 million for the six months ended 30 June 2006. Interest expense related mainly to interest expenses on loans obtained by Raspadskaya from Natixis, by Raspadskaya Preparation Plant from SB RF and to the coupon payments on Eurobonds.

Income tax expense

Income tax expense for the six months ended 30 June 2007 increased by U.S.$15.7 million, or 108 per cent, to U.S.$32.1 million from U.S.$16.4 million for the six months ended 30 June 2006. The increase was primarily the result of similar increase in the profits before taxes.

Profit for the period

Profit for the six months ended 30 June 2007 increased by U.S.$50.0 million, or 124 per cent, to U.S.$90.4 million from U.S.$40.4 million for the six months ended 30 June 2006.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from operating activities, debt financing and access to equity capital markets. Our plan going forward is to finance our capital expenditures; interest and dividends primarily out of our operating cash flows, as well as to finance our capital expenditures through additional borrowings.

Our *pro forma* consolidated financial information does not contain a cash flow statement and, therefore, the below analysis is based on the historical consolidated cash flow statement of Raspadskaya. If *pro forma* cash flow statements were prepared, they would significantly differ from the historical consolidated cash flow statement of Raspadskaya.

Analysis of Cash Flows Based On Our Historical Consolidated Financial Statements as of and for the Six Months ended 30 June 2007 and 2006

The table below sets forth our IFRS historical cash flow statement:

	For the six months ended 30 June	
	2007	**2006**
	(in U.S. dollars thousands)	
Cash and cash equivalents at the beginning of the period	49,219	26,946
Net cash generated from operating activities	117,362	95,433
Net cash used in investing activities	(56,787)	7,960
Net cash used in financing activities	(44,777)	54,749
Effect of foreign exchange rate changes on cash and cash equivalents	1,245	1,841
Cash and cash equivalents at the end of the period	66,262	61,511

Net cash generated from operating activities

The table below presents the cash flow from operating activities over the analysed periods:

	For the six months ended 30 June	
	2007	**2006**
	(in U.S. dollars thousands)	
Net profit	**90,419**	**40,398**
Adjustments to reconcile net profit to net cash flows		
Non-cash:		
Depreciation, depletion and amortisation	64,742	20,803
Deferred income tax benefit	(7,847)	(406)
Loss on disposal of property, plant and equipment	1,114	471
Foreign exchange gains	(5,505)	275
Dividend income	(4)	-
Interest income	(2,068)	(434)
Interest expense	15,659	4,221
Employee benefits	159	525
Bad debt expense	351	(124)
	157,020	**65,729**
Changes in working capital:		
Inventories	(3,465)	(6,976)
Trade and other receivables	(21,646)	3,130
Receivables from/payables to related parties	(1,523)	3,295
Trade and other payables	(7,138)	7,826
Taxes payable	(5,886)	22,429
Net cash flow from operating activities	**117,362**	**95,433**

As a result of the growth of coal prices and sales, the net profit increased by U.S.$51.1 million for the the six months ended 30 June 2007 as compared to the six months ended 30 June 2006.

Net cash flow used in investing activities

The major components of the net cash flow from investing activities are presented in the following table:

	For the six months ended 30 June	
	2007	**2006**
	(in U.S. dollars thousands)	
Purchases of property, plant and equipment	(59,308)	(39,777)
Cash acquired through acquisition of subsidiaries	-	31,947
Purchases of subsidiaries from company's parent, net of cash acquired	2,034	(214)
Other investing activities, net	487	84
Net cash flow from investing activities	**(56,787)**	**(7,960)**

Net cash used in investing activities included mainly purchases of property, plant and equipment by Raspadskaya, Raspadskaya Koksovaya and Raspadskaya Preparation Plant.

Net cash used in financing activities

The major components of the net cash flow from financing activities are presented in the following table:

	For the six months ended 30 June	
	2007	**2006**
	(in U.S. dollars thousands)	
Purchases of treasury shares	–	(1,207)
Proceeds from sale of treasury shares	–	20,429
Proceeds from loans and promissory notes	305,706	286
Repayment of loans and promissory notes, including interest	(326,648)	(27,968)
Dividends paid	(23,091)	(46,275)
Payments under finance leases, including interest	(744)	(14)
Net cash flow from financing activities	**(44,777)**	**(54,749)**

Capital Expenditures

The following table sets forth capital expenditures for the six months ended 30 June 2007 and 2006:

	For the six months ended 30 June	
	2007	**2006**
	(in U.S. dollars thousands)	
Raspadskaya	25,679	21,613
Raspadskaya Koksovaya	11,922	7,247
Raspadskaya Preparation Plant	11,152	1,128
Razrez Raspadsky	9,401	8,409
MUK-96	3,683	12,049
Other	2,084	3,609
Total capital expenditures	**63,921**	**54,055**

Our plan for capital expenditures for the year ended 31 December 2007 aims at a total of about U.S.$148.0 million. As of 30 June 2007 the expenditures amounted to U.S.$63.9 million that is 43 per cent of the planned amount. Our main development capital expenditures relate to the construction of Raspadskaya-Koksovaya mine as well as Stage II of our Preparation Plant. The capital expenditure relating to these projects amounted to approximately 36% of total capital expenditures incurred in the period.

Indebtedness and contractual obligations

The following table sets forth our indebtedness:

	30 June 2007			
	Repayment of Principal Due By Period			
	Less than 1 year	**1-2 years**	**More than 2 years**	**Total**
	(in U.S. dollars thousands)			
Long-term debt, including current portion	20,280	24,979	300,648	345,907
Short-term debt, including accrued interest.....	9,403	-	-	9,403
Capital lease obligations.................................	443	-	-	443
Operating lease obligations	69	-	-	69
Total...	**30,195**	**24,979**	**300,648**	**355,822**

In May 2007 we issued Eurobonds at total amount of U.S.$300.0 million. We used this issue as a means of repaying our U.S.$300 million short-term debt to the bank Natixis Banques Populaire The Eurobonds are issued for 5 years and redeemable in May 2012 with fixed coupon of 7.5 per cent *per annum*.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues and expenses, results of operations, liquidity, capital expenditures, or capital resources.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks with respect to foreign currency exchange rates, interest rates and commodity prices volatility.

Commodity price risk

As we operate in only one business segment we are primarily exposed to the effects of fluctuations in the price of raw coking coal and coal concentrate. As the price for these products is not quoted on international markets, the average prevailing price currently relevant to our business is determined based on the existing contracts for sale and purchase of coking coal in the domestic, Ukrainian and some other Eastern-European markets as well as markets of some countries of Far East which are the major destinations where our coal is sold.

Our customers primarily operate in the steel industry. The steel market has historically faced cyclical fluctuations which have influenced the results of our operations and are expected to continue to do so in the future. We do not hedge our exposure to price risk and historically have not been involved in transactions with related derivatives.

Foreign currency exchange rate risk

Our principal customers operate in the domestic market and, therefore, most of the sales are priced in rubles. Most of our costs are also incurred in rubles. In the event we continue export sales or expand our export operations, we may be exposed to foreign currencies fluctuations which could affect our results of operations.

Interest rate risk

We are exposed to interest rate risk principally in relation to our outstanding bank debt. Despite the fact that the major portion of our debt is long-term with fixed rate there is a risk that in case of changes in the prevailing market interest rates we will not be able to renegotiate the borrowing terms. We currently do not hedge this risk.