Management's Discussion and Analysis
of Financial Condition and Results of Operations

The following is a discussion and analysis of our consolidated financial information for the year ended 31 December 2007. The discussion and analysis covers comparative analysis of our 2007 consolidated financial information with our 2006 historical and pro forma consolidated financial information.

This discussion and analysis should be read in conjunction with our consolidated financial information for the year ended 31 December 2007 and our pro forma consolidated financial information for the year ended 31 December 2006. The pro forma consolidated financial information for the year ended 31 December 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.

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 combine a group of companies integrated on regional base in Kuzbass: three mining companies, one mine under construction, preparation plant, companies of transportation and production infrastructure, collectively "Raspadskaya Group" or "the Group". 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 IMC 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 13.6 million tonnes were extracted in the second half of 2006 and in 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 table below sets forth our ownership share in key subsidiaries:

Subsidiary	Ownership interest, % 2007	2006
OAO MUK-96	100.00%	100.00%
ZAO Razrez Raspadsky	100.00%	100.00%
OOO Raspadskiy Ugol	100.00%	100.00%
ZAO Raspadskaya Coal Company	100.00%	100.00%
ZAO Raspadskaya Preparation Plant	100.00%	100.00%
ZAO Raspadskaya Koksovaya	100.00%	100.00%
OOO Raspadskaya-Joy	100.00%	100.00%
OOO Puteets	100.00%	100.00%
OAO OShPU	95.12%	95.12%
OAO TPTU	58.59%	58.59%
OOO Montazhnik Raspadskoy	51.00%	51.00%

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

General

The discussion and analysis below is based on our historical consolidated financial information for 2007 and our *pro forma* consolidated financial information for 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 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 Consolidated Financial Information vs. 2006 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 *pro forma* consolidated financial information for the year ended 31 December 2006 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, prior to MUK Group Acquisition, MUK-96 and Razrez Raspadsky have not prepared historical IFRS financial statements. For the purposes of preparing the *pro forma* consolidated financial information covered by 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 deemed cost being their fair values determined as at 31 May 2006. The depreciation and depletion charges for 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 2006 in section **"2007 Consolidated Financial Information vs. 2006 *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 and supply of coking coal, coking coal prices, production costs, exchange rates and social expenses.

In 2007, Russian industrial development was characterized by positive dynamics which was reflected by the industrial consumption of coal. According to Rosinformugol, metallurgical coal output amounted to 23.2 per cent of total coal output and 18.9 per cent of the total coal supply. Exports amounted to 10 million tonnes, or 13.7 per cent of total metallurgical coal output.

The total volume of metallurgical coal output in 2007 produced by underground and open mining methods amounted to 72.9 million tones, or 3.5 per cent more than in 2006 (Source: www.riatec.ru).

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 coke 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 coal and steel markets. Cyclical fluctuations in the steel industry in the future will continue to affect our sales of coal concentrate and raw coal. During 2007, several accidents and suspensions of production took place at several Russian, Ukrainian and Kazakh coal mining companies entailing a deficit of gas fat coal on the market, in particular on Russian and East-European markets.

In 2007, all mining companies of the Group produced 13.55 million tones of raw coal so that the Group has increased its share in Russian production from 15 per cent in 2006 up to 19 per cent.

The major part of our coal products is sold to large domestic steel producers such as Magnitogorsk Iron and Steel Plant ('MMK'), Evraz Group's 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 53 per cent and 52 per cent of our total coal concentrate and raw coal revenues in 2007 and 2006, respectively. Also, share of our export sales volume increased in 2007 as compared to 2006 and accounted for 26 per cent and 20 per cent of our total coal concentrate and raw coal sales volume, respectively.

The Group's share of the Russian export to Ukraine increased to 23 per cent in 2007 in comparison with 18 per cent in 2006. Ukraine was our second largest market after Russia both in 2007 and 2006 (Source: www.rasmin.ru).

In 2007, our sales in the Eastern European market increased substantially. Our sales to ArcelorMittal Galati (Rumania) amounted to 6.8 per cent of our total sales in 2007. Furthermore, the Group widened further its geography of sales in 2007, among other on the Asian markets which constituted 2 per cent of our total sales.

Our results of operations are indirectly affected by the increase in the coal production capacities and sales 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:

	2007	2006	% change
	(in U.S. dollars per tonne, except percentages, FCA)		
Coal concentrate—average domestic price	76.1	60.4	26%
Coal concentrate—average export price	67.8	52.2	30%
Average sales price of coal concentrate	**73.5**	**58.6**	**25%**
Raw coal—average domestic price	41.5	32.7	27%
Raw coal—average export price	–	32.5	n/a
Average sales price of raw coal	**41.5**	**32.7**	**27%**

Domestic prices for our coal concentrate and raw coal 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 is set periodically based upon negotiations with the customers.

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:

	2007	2006	% change
	(in thousands of tonnes, except percentages)		
Raw coal produced by Raspadskaya mine	8,851	7,368	20%
Raw coal produced by Razrez Raspadsky	2,779	2,104	32%
Raw coal produced by MUK-96	1,920	1,141	68%
Total raw coal production	**13,550**	**10,613**	**28%**
Raw coal preparation	11,680	8,660	35%
Coal concentrate production	8,834	6,560	35%

Production volumes increased by 28 per cent in 2007 as compared with 2006. Along with this, the share of coal concentrate in total production volumes was 86 per cent and 82 per cent in 2007 and 2006, respectively.

Sales volumes

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

	2007	2006	% change
	(in thousands of tonnes, except percentages)		
Domestic sales of coal concentrate	6,027	5,125	18%
Export sales of coal concentrate	2,768	1,423	95%
Total sales of coal concentrate	**8,795**	**6,548**	**34%**
Domestic sales of raw coal	1,835	1,694	8%
Export sales of raw coal	–	250	n/a
Total sales of raw coal	**1,835**	**1,944**	**(6)%**
Total sales of coal concentrate and raw coal [(1)]	**10,182**	**8,021**	**27%**

(1) Raw coal restated in tonnes of coal concentrate at output ratio of app. 76 and 76 per cent for 2007 and 2006, respectively

For 2007 as compared to 2006 our sales volumes of coal concentrate increased by 34 per cent and of raw coal decreased by 6 per cent in line with our strategy on increasing higher-margin coal concentrate production.

The increase in export sales volumes of coal concentrate in 2007 as compared with 2006 by 95 per cent is mainly a consequence of the increase in our sales in the Ukrainian and Romanian markets.

The table below sets forth the volumes of our coal concentrate and raw coal sales by location of our customers:

	2007	2006	% change
	(in thousands of tonnes, except percentages)		
Sales of coal concentrate			
Russia	6,027	5,125	18%
Ukraine	1,472	983	50%
Romania	696	159	338%
Hungary	259	220	18%
Japan	153	–	n/a
Bulgaria	86	56	54%
Slovakia	43	5	760%
Korea	32	–	n/a
China	27	–	n/a
Total sales of coal concentrate	**8,795**	**6,548**	**34%**
Sales of raw coal			
Russia	1,835	1,694	8%
Ukraine	–	250	n/a
Total sales of raw coal	**1,835**	**1,944**	**(6)%**

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)]:

	2007	2006	% change
	(in thousands of U.S. dollars)		
Cost of revenues	**356,448**	**249,022**	**43%**
Less:			
Railway tariff	(41,632)	(8,833)	371%
Cost of other resold goods	(1,355)	(713)	90%
Change in finished goods	2,346	(1,953)	(220)%
Depreciation, depletion and amortization	(134,063)	(90,938)	47%
Total cash cost of production	**181,744**	**146,585**	**24%**
Including:			
Total cash cost of raw coal production	155,801	127,379	22%
Total cash cost of preparation	25,943	19,206	35%

(1) Cash cost of production represents cost of sales before railway tariff, 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:

	2007	2006	% change
	(in thousands of U.S. dollars, except percentages)		
Cash cost of raw coal produced by Raspadskaya mine	103,603	86,900	19%
Cash cost of raw coal produced by Razrez Raspadsky	27,952	25,434	10%
Cash cost of raw coal produced by MUK-96	24,246	15,045	61%
Total cash cost of raw coal production	**155,801**	**127,379**	**22%**
	(in U.S. dollars per tonne, except percentages)		
Cash cost per tonne of raw coal produced by Raspadskaya mine	11.7	11.8	(1)%
Cash cost per tonne of raw coal produced by Razrez Raspadsky	10.1	12.1	(17)%
Cash cost per tonne of raw coal produced by MUK-96	12.6	13.2	(5)%
Total cash cost per tonne of raw coal produced	**11.5**	**12.0**	**(4)%**

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 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 and on MUK-96 mine is a consequence of the 20 and 68 per cent increase in raw coal production. The increase in raw coal production by 32 per cent and decrease of overburden operations by 5 per cent allowed us to reduce the cash cost per tonne of raw coal at Razrez Raspadsky in 2007 in comparison with 2006.

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

	2007	**2006**	**% change**
	(in thousands of tonnes, except percentages)		
Raw coal used in concentrate preparation	11,680	8,660	35%
Coal concentrate produced	8,834	6,560	35%
Output ratio	76%	76%	
	(in thousands of U.S. dollars, except percentages)		
Estimated cash cost of raw coal used in concentrate preparation (1)	134,320	103,919	29%
Cash cost of preparation	25,943	19,206	35%
Total cash cost of coal concentrate produced	**160,263**	**123,125**	**30%**
	(in U.S. dollars per tonne, except percentages)		
Preparation cash cost per tonne of raw coal used	2.2	2.2	0%
Preparation cash cost per tonne of coal concentrate produced	2.9	2.9	0%
Total cash cost per tonne of coal concentrate produced	**18.1**	**18.8**	**(4)%**

(1) 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:

	2007	2006	% change
	(in thousands of tonnes, except percentages)		
Raw coal prepared by Raspadskaya Preparation Plant	10,293	7,557	36%
Raw coal prepared by third parties	1,387	1,103	26%
Total raw coal preparation	*11,680*	*8,660*	*35%*
Coal concentrate produced by Raspadskaya Preparation Plant	7,826	5,735	36%
Coal concentrate produced by third parties	1,008	825	22%
Total coal concentrate produced	**8,834**	**6,560**	**35%**
	(in thousands of U.S. dollars, except percentages)		
Cash cost of preparation by Raspadskaya Preparation Plant	17,843	11,996	49%
Cash cost of preparation by third parties	8,100	5,444	49%
Transportation	–	1,766	n/a
Total cost of preparation	**25,943**	**19,206**	**35%**
	(in U.S. dollars per tonne, except percentages)		
Preparation cost per tonne of raw coal used by Raspadskaya Preparation Plant	1.7	1.6	6%
Preparation cost per tonne of raw coal used by third parties	5.8	4.9	18%
Transportation cost per tonne of raw coal used by third parties	–	1.6	100%
Preparation cost per tonne of coal concentrate produced by Raspadskaya Preparation Plant	2.3	2.1	10%
Preparation cost per tonne of coal concentrate produced by third parties	8.0	6.6	21%
Transportation cost per tonne of coal concentrate produced by third parties	–	2.1	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 88 per cent and 87 per cent in 2007 and 2006, respectively.

Railway costs

All of the coal concentrate and raw coal 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

Our functional currency is the Russian Rouble. Our presentation currency is the U.S. dollar. Our revenues from the domestic sales accounted for 71 per cent and 81 per cent of total revenue for 2007 and 2006, respectively. Prices for domestic sales are set in roubles. Most of our costs except for certain equipment purchased are also denominated in roubles.

In recent years, the U.S. dollar has depreciated against the rouble. 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 Years ended 31 December 2007 and 2006

The table below sets forth our consolidated income statement for the year ended 31 December 2007 and *pro forma* consolidated income statements for the year ended 31 December 2006:

	2007	**2006**	**% change**
	(in thousands of U.S. dollars, except percentages)		
Revenue	784,094	468,789	67%
Cost of revenues	(356,448)	(249,022)	43%
Gross profit	**427,646**	**219,767**	**95%**
Gross profit margin	**53%**	**47%**	
Selling and distribution costs	(17,248)	(10,402)	66%
General and administrative expenses	(56,064)	(41,198)	36%
Social and social infrastructure maintenance expenses	(10,776)	(6,809)	58%
Gain (loss) on disposal of property, plant and equipment	(1,934)	(1,591)	22%
Foreign exchange gains/(losses), net	20,125	8,975	124%
Other operating income	1,046	1,910	(45)%
Other operating expenses	(7,415)	(4,055)	83%
Dividend income	20	15	33%
Interest income	3,868	1,187	226%
Interest expense	(30,235)	(18,588)	63%
Profit before income tax	**329,033**	**149,211**	**121%**
Profit before income tax margin	**42%**	**32%**	
Income tax expense	(88,790)	(37,678)	136%
Profit for the year	**240,243**	**111,533**	**115%**
Profit for the year margin	**31%**	**24%**	

Revenue

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

	2007		2006		
	Amount	**% of total revenue**	**Amount**	**% of total revenue**	**% change**
	(In thousands of U.S. dollars, except percentages)				
Domestic sales of coal concentrate	471,807	61%	318,733	68%	48%
Export sales of coal concentrate	229,924	29%	83,168	18%	176%
Total sales of coal concentrate	**701,731**	**90%**	**401,901**	**86%**	**75%**
Domestic sales of raw coal	76,140	10%	55,366	12%	38%
Export sales of raw coal	-	0%	8,127	2%	(100)%
Total sales of raw coal	**76,140**	**10%**	**63,493**	**14%**	**20%**
Total sales of coal concentrate and raw coal	**777,871**	**100%**	**465,394**	**100%**	**67%**
Sale of other goods and rendering of services	6,223		3,395		83%
Total sales	**784,094**		**468,789**		**67%**

90 per cent of our total revenue for 2007 was derived from coal concentrate and raw coal revenues. The major portion of our coal concentrate and raw coal sales is related to our Russian customers who primarily include large iron and steel mills. Our major customers in 2007 and 2006 were MMK, Evraz and NLMK. The share of sales to these plants was 53 per cent and 52 per cent of our total coal concentrate and raw coal sales volume for 2007 and 2006, respectively. Also, the share of export sales increased in 2007 as compared with 2006 and was 26 per cent and 20 per cent of our total coal concentrate and raw coal sales volume, respectively.

Export sales of coal concentrate and raw coal increased by 152 per cent in 2007 as compared to 2006. The increase reflects a favourable market condition in the Ukrainian and Romanian markets, the major markets for our export.

Sales of other goods and rendering of services includes transportation services of TPTU provided locally, sales of various goods and service revenues of our group.

Our revenues are affected by different types of delivery terms (FCA Mezhdurechensk, FOB Shipping point, DAF Customer destination). The table below presents our domestic and export revenues by product types reduced to a common delivery terms (FCA Mezhdurechensk) by deducting transportation costs from revenues reported in the financial statements in respect of sales of coal and coal concentrate made under FOB and DAF delivery terms:

	2007		2006		
	Amount	**% of total revenue**	**Amount**	**% of total revenue**	**% change**
	(In thousands of U.S. dollars, except percentages)				
Domestic sales of coal concentrate	458,715	63%	309,298	69%	48%
Export sales of coal concentrate	187,588	26%	74,335	17%	152%
Total sales of coal concentrate	**646,303**	**89%**	**383,633**	**86%**	**68%**
Domestic sales of raw coal	76,140	11%	55,366	12%	38%
Export sales of raw coal	–	0%	8,127	2%	(100)%
Total sales of raw coal	**76,140**	**11%**	**63,493**	**14%**	**20%**
Total sales of coal concentrate and raw coal	**722,443**	**100%**	**447,126**	**100%**	**62%**
Deemed railway tariff included in sales price under delivery terms other than FCA Mezhdurechensk	55,428		18,268		203%
Sale of other goods and rendering of services	6,223		3,395		83%
Total sales	**784,094**		**468,789**		**67%**

Deemed railway tariff increased by 203% compared to 2006. The increase reflects increase in railway tariff and higher portion of revenues made under delivery terms other than FCA Mezhdurechensk.

Cost of revenues

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

	2007		2006		
	Amount	**% of production costs**	**Amount**	**% of production costs**	**% change**
	(in thousands of U.S. dollars, except percentages)				
Depreciation, depletion and amortization	134,063	42%	90,938	38%	47%
Payroll	58,839	19%	47,869	20%	23%
Materials	46,554	15%	41,538	17%	12%
Mineral extraction tax and other taxes in production costs	17,552	6%	14,232	6%	23%
Payroll taxes	16,749	5%	12,366	5%	35%
Electricity	13,782	4%	10,187	4%	35%
Preparation services from third parties	8,100	3%	5,444	2%	49%
Pension costs	1,053	0%	4,759	2%	(78)%
Transportation	-	0%	1,766	1%	n/a
Other services and costs	19,115	6%	8,424	5%	127%
Cost of production	**315,807**	**100%**	**237,523**	**100%**	**33%**
Railway tariff	41,632		8,833		371%
Cost of other resold goods	1,355		713		90%
Change in finished goods	(2,346)		1,953		n/a
Cost of revenues	**356,448**		**249,022**		**43%**

Depreciation, depletion and amortisation

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

	2007	2006	% change
	(in thousands of U.S. dollars, except percentages)		
Depreciation, depletion (excluding mineral reserve) and amortisation	71,980	51,528	40%
Depletion of mineral reserve	64,991	41,018	58%
Total	**136,971**	**92,546**	**48%**

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.

Payroll and payroll taxes

Payroll and related payroll taxes accounted for 24 per cent and 25 per cent of production costs for 2007 and 2006, respectively.

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

	2007	2006	% change
Average total number of employees	7,541	7,245	4%
Total net payroll *(in thousands of U.S. dollars)*	95,909	74,243	29%
Total payroll taxes *(in thousands of U.S. dollars)*	23,866	17,785	34%
Average annual payroll per employee, net *(in U.S.* dollars)	12,718	10,247	24%
Effective payroll tax rate, %	25%	24%	

The increase of the payroll costs for 2007 as compared to 2006 reflected the higher headcount number, the labour cost inflation in the period and rouble 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 the State 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 and 2 per cent of the total production costs for 2007 and 2006, respectively. The increase in these costs was a consequence of the increased charges of coal preparation services by third parties, increase in preparation volumes and increase in Russian Rouble rate.

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 and 5 per cent of production costs for 2007 and 2006, respectively. 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 2007 was primarily caused by the higher prices and tariffs as compared with 2006. Also, the increased consumption of materials and electricity was caused primarily by the increase in production of raw coal in 2007 as compared with 2006.

Other services and costs

Other services and costs accounted for 6 per cent and 5 per cent of production costs for 2007 and 2006, respectively. The increase in other services and costs was mainly driven by the increase in third party costs relating to transportation services of raw materials and waste removal from Raspadskaya Preparation Plant.

Selling, general and administrative and other expenses

Selling and distribution costs

Selling and distribution costs increased to U.S.$17.2 million in 2007 from U.S.$10.4 million in 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.

General and administrative expenses

The table below sets forth our general and administrative expenses:

	2007		**2006**		
	Amount	**% of total**	**Amount**	**% of total**	**% change**
	(In thousands of U.S. dollars, except percentages)				
Payroll	27,974	50%	18,827	46%	49%
Property and other taxes	6,365	11%	6,500	16%	(2)%
Payroll tax	5,045	9%	3,631	9%	39%
Pension costs	326	1%	1,099	3%	(70)%
Raw materials	1,767	3%	953	2%	85%
Insurance	635	1%	764	2%	(17)%
Depreciation and amortisation	1,561	3%	731	2%	114%
Other services and costs	12,391	22%	8,693	20%	43%
Total	**56,064**	**100%**	**41,198**	**100%**	**36%**

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

The increase in payroll and related taxes for 2007 was primarily due to the increase in the number of administrative personnel and increase in Russian Rouble rate, in comparison to 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 include bank services, information, communication, consulting, audit and other fees. Increase in such costs and fees related to higher consulting fees and 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.$6.8 million for 2006 to U.S.$10.8 million for 2007.

Loss on disposal of property, plant and equipment

Loss on disposal of property, plant and equipment was U.S.$1.9 million and U.S.$1.6 million for 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 2007 was due to the revaluation us dollar denominated borrowings.

Other operating income (expenses)

Other net operating income (expenses) mainly consists of gains and expenses associated with non-core aspects of our business such as rent and other non-recurring items. Other net operating expenses increased from U.S.$2.1 million for 2006 to U.S.$6.4 million for 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 of U.S.$30.2 million and U.S.$18.6 million for 2007 and 2006, respectively, primarily related to interest on borrowings obtained from Natixis, Sberbank, as well as the coupon payments on Eurobonds.

Income tax expense

Our income tax expense was U.S.$88.8 million and U.S.$37.7 million for 2007 and 2006, respectively. The substantial increase in income tax was a result of higher profits in 2007.

Profit for the period

Our profit for the period for 2007 increased by U.S.$128.7 million as compared to 2006 and amounted to U.S.$240.2 million against U.S.$111.5 million, respectively, reflecting the same trends as gross profit and profit before tax.

EBITDA

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

	2007	2006
	(In thousands of U.S. dollars, except percentages)	
Net profit	**240,243**	**111,533**
Adjusted for:		
Depreciation, depletion (excluding mineral reserve) and amortisation[(2)]	70,633	51,528
Depletion of mineral reserve	64,991	41,018
Dividend income	(20)	(15)
Interest income	(3,868)	(1,187)
Interest expense	30,235	18,588
Income tax expense	88,790	37,678
EBITDA	**491,004**	**259,143**
EBITDA, % of revenue	**63%**	**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 2007 includes charges relating to cost of sales and general and administrative expenses amounting to U.S.$134.1 million and U.S.$1.6 million, respectively. Depreciation, depletion (excluding mineral reserve) and amortisation for 2006 includes charges relating to cost of sales and general and administrative expenses amounting to U.S.$90.9 million and U.S.$0.7 million, respectively.

2007 Consolidated Financial Information vs. 2006 Consolidated Financial Information

General

Our IFRS historical 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 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 2006. Our *pro forma* consolidated financial information for 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 2006 in section **"2007 Consolidated Financial Information vs. 2006 Consolidated Financial Information"** relate to the amounts complied or calculated on a historical basis.

Overview of the IFRS Results of Operations for the Years ended 31 December 2007 and 2006

The table below sets forth our IFRS historical income statement:

	2007	**2006**	**% change**
	(In thousands of U.S. dollars, except percentages)		
Revenue	784,094	472,090	66%
Cost of revenues	(356,448)	(269,041)	32%
Gross profit	**427,646**	**203,049**	111%
Gross profit margin	**55%**	**41%**	
Selling and distribution costs	(17,248)	(10,402)	66%
General and administrative expenses	(56,064)	(39,391)	42%
Social and social infrastructure maintenance expenses	(10,776)	(6,809)	58%
Gain (loss) on disposal of property, plant and equipment	(1,934)	(1,591)	22%
Foreign exchange gain (loss), net	20,125	8,006	151%
Other operating income	1,046	1,910	(45)%
Other operating expenses	(7,415)	(4,377)	69%
Dividend income	20	15	n/a
Interest income	3,868	1,077	259%
Interest expense	(30,235)	(17,518)	73%
Profit before income tax	**329,410**	**133,969**	**146%**
Profit before income tax margin	**42%**	**28%**	
Income tax expense	(88,790)	(33,793)	163%
Profit for the year	**240,243**	**100,176**	**140%**
Profit for the year margin	**31%**	**21%**	

Revenue

Revenue for 2007 increased by U.S.$312.0 million, or 66 per cent, to U.S.$784.1 million from U.S.$472.1 million for 2006. The increase was mainly due to the 27 and 25 per cent increase in average coal concentrate price respectively and due to the 27 per cent increase in sales volume of coal concentrate. The portion of the export sales volume increased and amounted to 26 per cent for 2007 as compared to 15 per cent for 2006.

Revenue shown in the IFRS historical income statement for 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 2007 increased by U.S.$87.4 million, or 32 per cent, to U.S.$356.4 million from U.S.$269.0 million for 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.$20.0 million higher for 2006 than in the *pro forma* income statements for 2006. 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.

Selling and distribution costs

Selling and distribution costs increased to U.S.$17.2 million for 2007 from U.S.$10.4 million for 2006 and included customs fees pertaining to the export sales as well as various expenses related to transportation of our products.

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 2007 increased by U.S.$16.7 million, or 42 per cent, to U.S.$56.1 million from U.S.$39.4 million for 2006. The increase was primarily the result of expanded administrative activities by Raspadskaya Coal Company and increased salaries 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.$2.5 million for 2006 to U.S.$6.4 million for 2007.

Interest income

Interest income increased by U.S.$2.8 million, or 259 per cent, to U.S.$3.9 million for 2007 from U.S.$1.1 million for 2006. The increase was due to the cash available for investing in short-term bank deposits.

Interest expense

Interest expense for 2007 increased by U.S.$12.7 million, or 73 per cent, to U.S.$30.2 million from U.S.$17.5 million for 2006. Interest expense related mainly to interest on borrowings obtained from Natixis, Sberbank as well as the coupon payments on Eurobonds.

Income tax expense

Income tax expense for 2007 increased by U.S.$55.0 million, or 163 per cent, to U.S.$88.8 million from U.S.$33.5 million for 2006. The increase was primarily the result of similar increase in the profits before taxes.

Profit for the period

Profit for 2007 increased by U.S.$140.1 million, or 140 per cent, to U.S.$240.2 million from U.S.$100.2 million for 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 for the Years ended 31 December 2007 and 2006

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

	2007	**2006**
	(in U.S. dollars thousands)	
Cash and cash equivalents at the beginning of the period	49,219	26,946
Net cash from operating activities	327,994	178,613
Net cash used in investing activities	(160,180)	(375,630)
Net cash used in financing activities	(139,452)	214,971
Effect of foreign exchange rate changes on cash and cash equivalents	4,730	4,319
Cash and cash equivalents at the end of the period	82,311	49,219

Net cash generated from operating activities

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

	2007	2006
	(in U.S. dollars thousands)	
Net profit	**240,243**	**100,176**
Adjustments to reconcile net profit to net cash flows		
Non-cash:		
Depreciation, depletion and amortisation	138,341	68,336
Deferred income tax benefit	(19,455)	(11,141)
Loss on disposal of property, plant and equipment	1,934	1,591
Foreign exchange gains	(20,125)	(8,006)
Dividend income	(20)	(15)
Interest income	(3,868)	(1,077)
Interest expense	30,235	17,518
Employee benefits	(1,261)	5,628
Bad debt expense	236	183
	366,260	**173,193**
Changes in working capital:		
Inventories	(21,195)	(2,271)
Trade and other receivables	(9,991)	(3,980)
Receivables from/payables to related parties	(20,601)	6,442
Trade and other payables	12,453	(19,387)
Taxes payable	1,068	24,616
Net cash flow from operating activities	**327,994**	**178,613**

As a result of the growth of coal prices and sales, the net profit increased by U.S.$140.1 million for 2007 as compared to 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:

	2007	2006
	(in U.S. dollars thousands)	
Purchases of property, plant and equipment	(166,296)	(100,768)
Purchases of subsidiaries from the Company's parent	–	(274,986)
Short-term deposits at banks, including interest, net	5,779	85
Other investing activities, net	337	39
Net cash flow from investing activities	**(160,180)**	**(375,630)**

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:

	2007	2006
	(in U.S. dollars thousands)	
Proceeds from issuance of share capital	–	1,316
Purchases of treasury shares	–	(1,182)
Proceeds from sale of treasury shares	–	19,967
Proceeds from loans	322,132	315,296
Repayment of loans, including interest	(366,374)	(73,930)
Dividends paid	(95,195)	(46,275)
Payments under finance leases, including interest	(15)	(221)
Net cash flow from financing activities	**(139,452)**	**214,971**

Capital Expenditures

The following table sets forth our capital expenditures:

	2007	2006
	(in U.S. dollars thousands)	
Raspadskaya	70,506	53,022
Raspadskaya Koksovaya	26,172	13,973
Raspadskaya Preparation Plant	24,336	15,928
Razrez Raspadsky	9,743	11,574
MUK-96	22,621	16,265
Other	12,919	5,333
Total capital expenditures	**166,297**	**116,095**

Our main development capital expenditures relate to technical re-equipment of production capacities and 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 30 per cent of total capital expenditures incurred in the period.

Our plan of capital expenditures implies U.S.$323 million investments in 2008.

Indebtedness and contractual obligations

The following table sets forth our indebtedness:

	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	16,601	9,624	298,762	324,987
Short-term debt, including accrued interest	22,367	–	–	22,367
Capital lease obligations	47	–	–	47
Operating lease obligations	464	–	–	464
Total	**39,479**	**9,624**	**298,762**	**347,865**

In May 2007 we issued Eurobonds at total amount of U.S.$300.0 million. We used these proceeds to repay our U.S.$300 million bridge loan from Natixis Banques Populaire. The Eurobonds are issued for 5 years and mature 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.

Financial risks management objectives and policies

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable. To manage credit risk related to cash, the Group maintains its available cash, mainly in Russian Roubles in reputable Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a small number of customers, to whom Group sells on credit terms. The Group developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days.

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are Euros and US dollars.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	2007	**2006**
	(in U.S. dollars thousands)	
USD/RUR	(271,968)	(292,872)
EUR/RUR	4,600	3,181
GBP/RUR	1,989	–

Interest Rate Risk

The Group incurs interest rate risk on loans and borrowings. The Group borrows on both a fixed and variable rate basis. The table below summarises the Group's outstanding interest-bearing debt as of 31 December 2007:

	2007	**2006**
	(in U.S. dollars thousands)	
Fixed-rate debt	341,970	58,778
Variable-rate debt	2,816	298,870
	344,786	**357,648**