



THE RESULTS OF 2007

DISCUSSION OF BUSINESS
RESULTS

In 2007, the Company made significant progress in implementing the development programs chosen, and showed the highest coal production growth among the coal companies of Kuzbass. In addition, in August 2007, the newly constructed Listvyazhnaya coal preparation plant was launched with the annual capacity of 6 million steam coal.

COAL PRODUCTION

In 2007, the coal mines of the Group produced 4,651,000 tons of coal, including:

- ▶ Steam coals 2,648,000 tons;
- ▶ Metallurgical coals 2,003,000 tons, including 225,000 tons of coal slack¹.

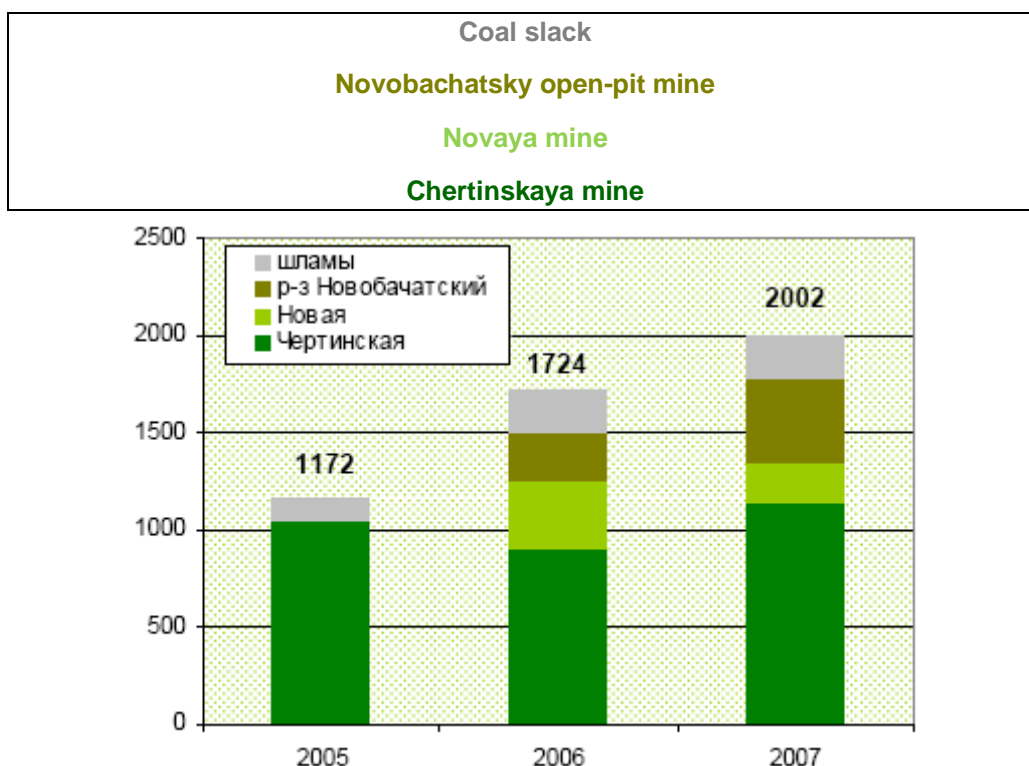
Total production of altogether coal in 2007 versus 2006 grew by 40% (from 3,159,000 tons to 4,429,000 tons). Production of metallurgical coal in 2007 versus 2006 rose by 18% (1,778,000 versus 1,502,000 tons), and production of steam coal rose by 60% (from 1,657,000 tons to 2,648,000 tons). Total coal production (including coal slack) increased in 2007 from 2006 by 38%.

METALLURGICAL COALS

Production of metallurgical coals was due to coal production growth at the following mines of the Group:

- ▶ The growth of ancillary mining in Section 1 of the Novobachatsky open-pit mine under an exploration license;
- ▶ At the Chertinskaya mine, coal production amounted to 1,146,000 tons in 2007 versus 900,000 tons in 2006 (+27%), which resulted from implementation of the Group's production renovation and development program.

Production of metallurgical coal (with coal slack), thousand tons



¹ Further in the text, coal slack production is included into the quantitative parameters of altogether steam coals, unless otherwise specified.

At the same time, coal production reduction took place at the Novaya-2 mine by 154,000 tons. It was related to temporary shutdown of the company in June 2007 in view to bring the mine's workings and infrastructure in compliance with the safety standards, installation of a new mechanized ploughing complex DBT, in accordance with the Mine's Development Concept for 2007–2008. Coal production was resumed in December 2007 after successful launch of the ploughing complex.

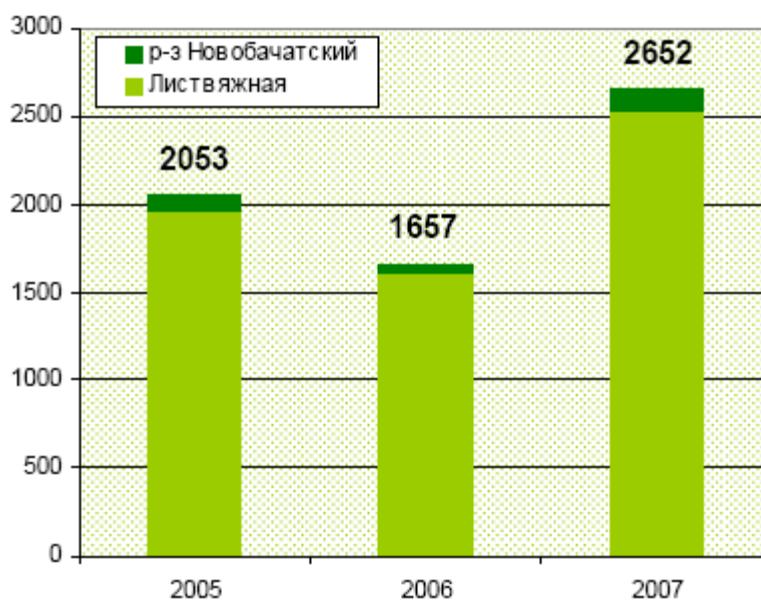
With the help of the new technology, the mine is planning to produce not less than 750,000 tons of coal in 2008, with essential reduction of the ash content of the coal produced. In the perspective, the Group is planning to bring annual coal production at the Novaya-2 mine to 800-820,000 tons of coal.

The works under the exploration license at Section 2 of the Novobachatsky open-pit mine, which started in the second half of 2006, are proceeding fast. In 2007, stripping amounted to 3,083,000 m³, four times as much as in 2006. In the 4th quarter of 2007, ancillary coal production started ahead of the work schedule in this section, with about 50,000 tons of coal produced.

STEAM COALS

In 2007, coal production at the Listvyazhnaya mine amounted to 2,535,000 tons, 58% more than in 2006.

Production of steam coals, thousand tons



Coal production increase became possible due to mine reconstruction and launch in January 2007 of a high-capacity coal production complex supplied by Joy Mining Machinery.

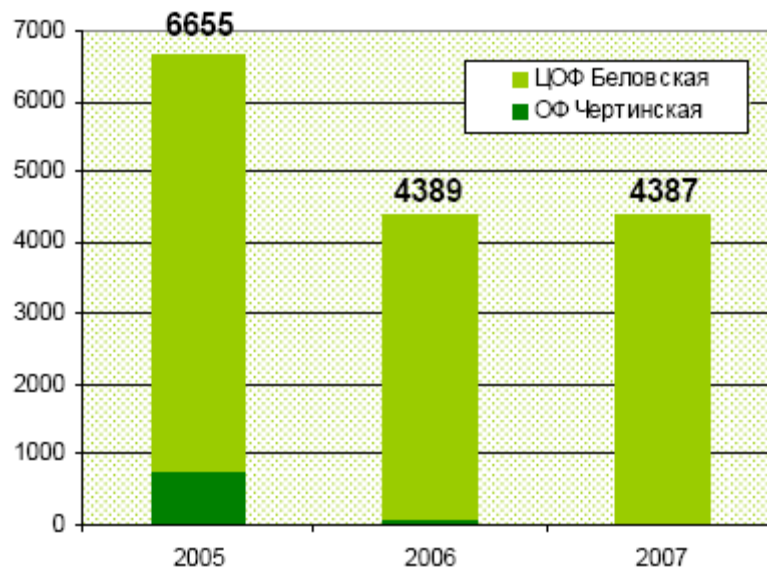
COAL PREPARATION

METALLURGICAL COALS

The amount of altogether coals and coal slacks, which were delivered to the Belovskaya central coal preparation plant in 2007 for preparation, totalled 4,387,000 tons versus 4,389,000 tons in 2006.

Metallurgical coal preparation, thousand tons

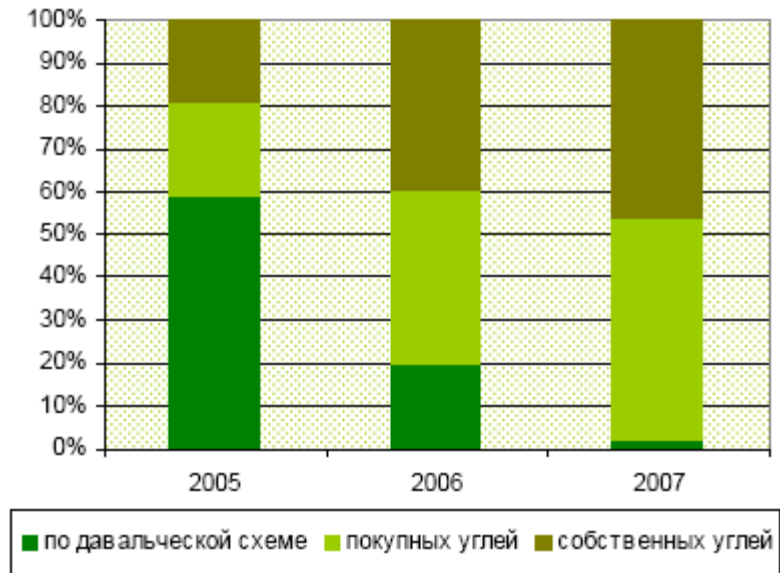
Belovskaya coal preparation plant
Chertinskaya mine



The amount of coal preparation (considering the work of the Chertinskaya coal preparation plant in the first half of 2006) actually remained the same; however, due to the increased amount of coal production at the enterprises of Belon Group, the coal base got redistributed and the share of the Group's own coals increased from 40% to 46%.

The amount of own coal preparation (with coal slacks) increased from 1,696,000 tons in 2006 to 2,034,000 tons in 2007 (17% growth). In 2007, the amount of purchased coals increased by 25% (from 1,817,000 tons of coal in 2006 to 2,264,000 tons of coal in 2007).

In 2007, Belon Group practically completely gave up preparation on the tolling basis, which allowed it to increase its own revenues from coal preparation operations. In the first half of 2007, preparation of give-and-take coals did not take place at all, in the second half of 2007, the plant processed only 90,000 tons of give-and-take coals (less than 2% of the coal preparation volume).



Metallurgical coal preparation, thousand tons

Give-and-take coals

Purchased coals

Own coals

Increased input at the plant resulted in the growth of finished product output at the Belovskaya central coal preparation plant from 2,949,000 tons to 3,053,000 tons (3.5% growth).

In addition, changes in the structure of supplied coals and control of the quality of input coals resulted in increased percentage of coal concentrate output in the first half of 2007 versus the second half of 2006 by 0.8 interest points (68.3% versus 67.5%). By the results of 2007, the percentage of coal concentrate output at the Belovskaya central coal preparation plant was 69.6%, 0.8 interest points higher than the respective value of 2006.

As the Company's own coal production rose and the quality control procedures improved, for the results of 2008, the coal concentrate output percentage is estimated to grow to 71.8%.

STEAM COALS

In August of 2007, as a part of testing the new technological processes and of testing operations, the Listvyazhnaya coal preparation plant started coal concentrate production. The coal preparation amount in 2007 totalled 625,000 tons of coal, 505,000 tons of coal concentrate were produced. In January 2008, as the coal supplies increased, the plant reached the designed production parameters. The designed amount for coal preparation by the Listvyazhnaya coal preparation plant for 2008 is 5 million tons of steam coals.

COAL PRODUCTS SALES

METALLURGICAL COALS

The total amount of metallurgical coal concentrate sold by the Group in 2007 was 2,983,000 tons of coal, 18% more than in 2006. The Group was able to achieve significant sales growth due to the increased share of the Group's own coal reserves, the increased demand of traditional buyers and the growth in the number of customers. A 5-year contract was signed with Novolipetsk Steel Works and new annual contracts with a number of leading steel works of Russia.

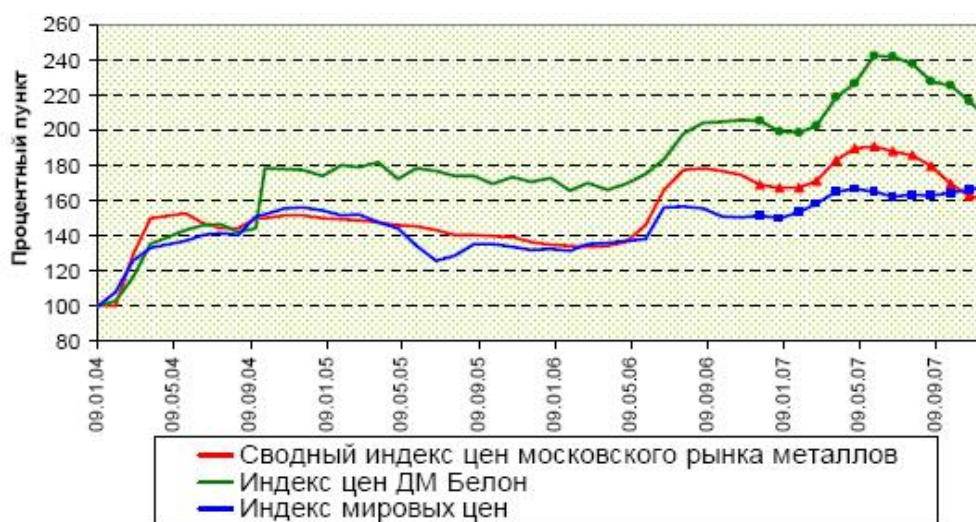
STEAM COALS

The sales of steam coals in 2007 amounted to 2,282,000 tons, 41% more than the sales volume of 2006 (1,616,000 tons). This became possible as a result of coal production growth at the Listvyazhnaya mine and of oxygenized coal supplies from ancillary coal production of Novobachatsky open-pit mine. In addition, in the fourth quarter Belon began to produce and to supply to the market the high-calorie steam coal concentrate produced at the Listvyazhnaya coal preparation plant.

The amount of coal exports increased nearly three times (from 552,000 tons to 1,504,000 tons in 2007), and the share of steam coals increased from 34% to 66%.

STEEL TRADING

In the favourable situation of construction growth in Russia in the first half of 2007, this business area demonstrated the growth of all parameters; however, in the second half of 2007, due to increased competition of steel importers (primarily from China and Egypt) and to the rapid growth of steel demand in Russia, significant excessive supply over demand was observed on the market, which stipulated the negative mill products price behaviour.



As a result, in the second half of 2007, sales volume got reduced to 148,000 tons, 11% less than the sales volume in the first half of 2007 (166,000 tons) and 3% less than the figure of the second half of 2006 (152,000 tons).

Yet, due to successful management's work, the Group was able to take advantage of the favourable market situation in the first half of the year, which allowed it to increase the annual sales from 282,000 tons in 2006 to 314,000 tons in 2007 (+ 11%).

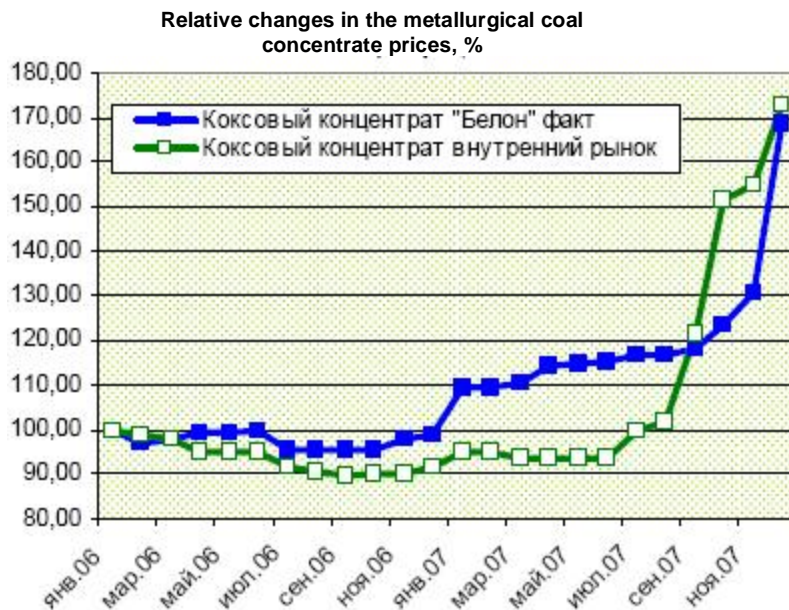
THE GROUP'S FINANCIAL RESULTS

A brief review of the market situation

In 2007, the market situation for the metallurgical and steam coals was characterized by the following factors.

In the first half of 2007, the prices of metallurgical coal concentrates on the domestic market (according to the data provided by RASMIN information agency) on average decreased by 0.3%, meanwhile the contract prices of Belon Group increased by nearly 10%.

Then, beginning from September 2007, the market prices of metallurgical coal concentrate skyrocketed. As a result, at the end of the year, the prices of metallurgical coal concentrate on the domestic market grew by 82% compared to January 2007, whereas the contract prices of Belon Group grew by 54%.



Belon's metallurgical coal concentrate price

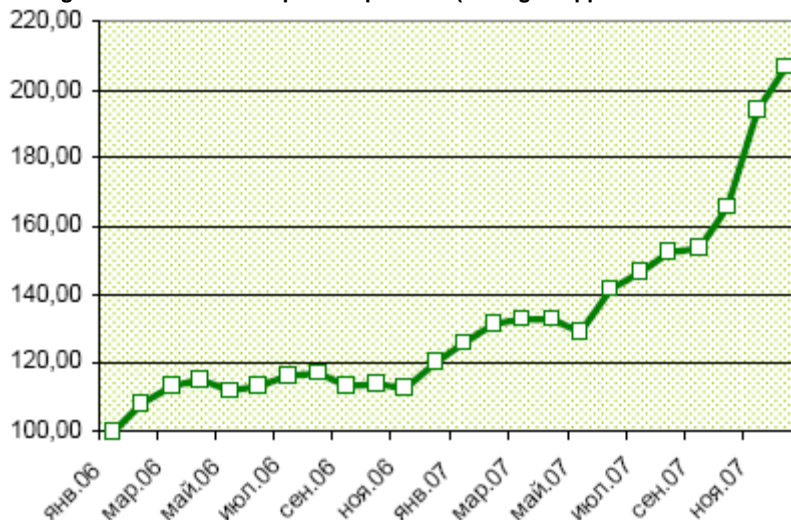
Domestic market price of metallurgical coal concentrate

January 2006 March 2006 May 2006 July 2006 September 2006 November 2006
 January 2007 March 2007 May 2007 July 2007 September 2007 November 2007

The long-term contracts to supply metallurgical coal concentrate, signed with Novolipetsk Steel Works and a number of other customers in the low market period of 2006—the beginning of 2007, guaranteed stable sales volumes to Belon Group, however, that became a restraining factor for the rapid growth of prices for the Company's products, following the market trends. However, already in the first quarter of 2008, the contract prices were revised in accordance with the market level.

Another factor of revenue growth was stabilization of the quality of coal produced at the Listvyazhnaya mine. As a result, the average price of steam coals in Belon Group in 2007 compared to 2006 grew by 36%. This occurred in the situation when reduction of demand for steam coals was observed on the domestic market—the growth of domestic prices was only 9% (lower than the inflation rate in RF), whereas the world steam coal price in 2007 increased by 64%. The major price growth occurred in the very end of 2007.

Relative changes in the steam coal prices Spot FOB (average supplies with different bases), %



The steam coal exports of Belon Group in 2007 nearly doubled: coal was shipped to Great Britain, Finland, Japan, Poland, and Ukraine.

Data from consolidated financial statements

In 2007, the Group's revenues amounted to 13,557 million rubles (**552 million dollars**) versus 10,430 million rubles in 2006 (**425 million dollars**).

The growth of revenues amounted to 30% to become a record figure for the Group in the entire history of its existence.

The gross earnings in 2007 amounted to 3,302 million rubles (**135 million dollars**) versus 2,163 million rubles (**88 million dollars**) in 2006. The gross earnings growth thus amounted to 52.6%.

Significant growth of the gross earnings, accompanied by insignificant growth of administrative expenses, resulted in considerable increase of the operating profit, EBITDA and the net profit. To ensure correct comparison of these parameters, it should be considered that in 2006 the profit parameters were affected by the asset revaluation due to consolidation of the assets of the Chertinskaya-Yuzhnaya mine and the Novaya-2 mine in the Group's balance.

Yet, noteworthy is the double growth (from 1,193 million rubles in 2006 to 2,390 million rubles in 2007) of such a parameter as the adjusted EBITDA (earnings before payment of interest, income tax and amortization, net of the effects of asset revaluation), which we consider the most adequate parameter of operating efficiency.

The Company's net profit in 2007 amounted to 659 million rubles (**27 million dollars**).

THE GROUP'S INVESTMENT PROGRAM

The total investment volume of the Group in 2007 amounted to 220 million dollars net of VAT, 32% more than the investment volume directed at development of the Group's enterprises in 2006, and 2.7 times more than the Group's investment volume in 2005. Such growth was

made possible due to the increase of the Group's equity by share placement among the investors in 2006 and by the increase of borrowed capital.

The breakdown of investments by the Group's business areas:

- ▶ Coal production and preparation: 213 million dollars net of VAT;
- ▶ Steel trading: 0.2 million dollars net of VAT;
- ▶ Other investments, aimed at ensuring the Group's sustainability: 6.8 million dollars net of VAT.

Throughout 2007, the Group actively invested into **the coal sector**—the total investments amounted to **213 million dollars** net of VAT, out of which:

- ▶ 105.3 million dollars net of VAT were invested into development and construction of mining enterprises, namely:

<i>Coal production enterprise</i>	<i>Total investments, mln dollars, net of VAT</i>
Chertinskaya mine	5.6
Novaya mine	27.7
Kostromovskaya mine	33.4
Novobachatsky open-pit mine (sectors 1 and 2)	23.9
Listvyazhnaya mine	14.7
TOTAL investments in coal production	105.3
Out of them, into new construction	57.3 (54%)
Renovation and reconstruction	48 (46%)

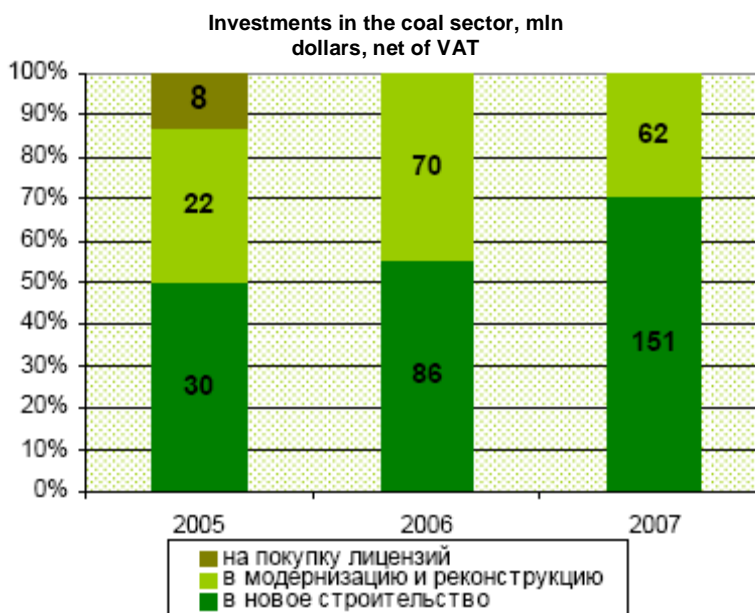
- ▶ 97.8 million dollars net of VAT were invested in development and construction of coal preparation facilities, namely:

Coal preparation plant	Investment amount, mln dollars, net of VAT
Belovskaya central coal preparation plant	4.4
Listvyazhnaya coal preparation plant	93.4
TOTAL investments in coal preparation	97.8

- ▶ 9.5 million dollars net of VAT were invested into coal production and preparation infrastructure development (the truck company, *BPT* railway enterprise, *Belon-Geology*, *Sibgormontazh*), 2.5 times more than in 2006. The major funds were invested in construction of Inya railway station to provide railway services due to increased transportation of coal from the Listvyazhnaya coal preparation plant.
- ▶ 435,000 dollars were invested in buying licenses in 2007 (the license for Novobachatsky-3 production site).

In total for the coal sector, 150.7 million dollars (71% of the total investment volume) were invested into new construction, which is 75% more than the investments of 2006 and 5 times more than in 2005.

In total in 2007, 62 million dollars net of VAT (29% of the total investment volume) were invested into development and renovation of the existing coal production facilities, which was somewhat lower than in 2006 (11% lower) and nearly three times more than the investment figure of 2005.



Buying licenses
Renovation and reconstruction
New construction

Development of the Group's own coal reserves by commissioning new facilities, such as the Kostromovskaya mine and the Novobachatsky open-pit mine, became a priority for the Group's management.

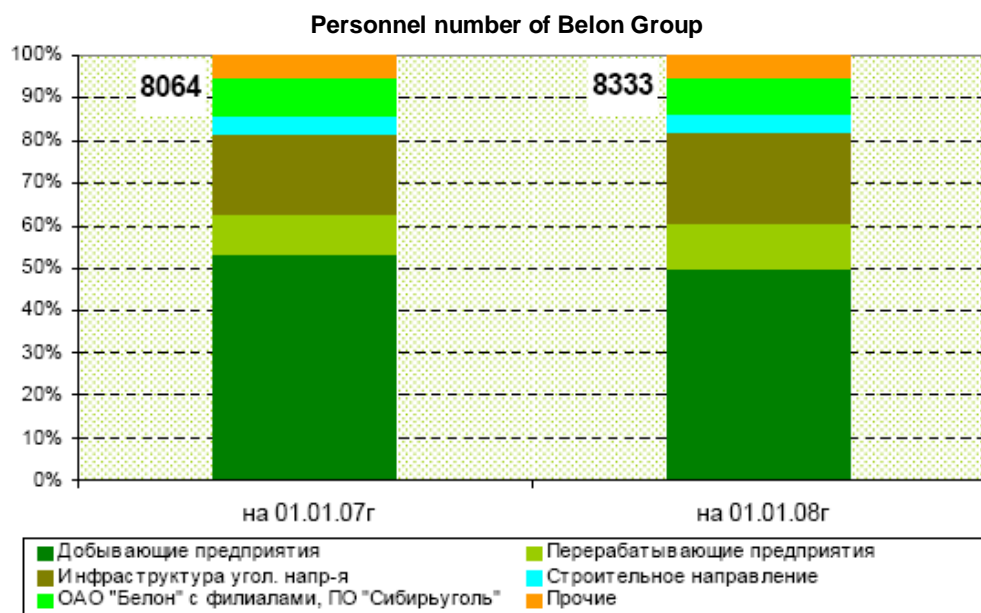
In addition, due to significant growth of coal production at the Listvyazhnaya mine, in order to raise the products' competitive ability on the world market, the management's efforts in 2007 were directed at acceleration of the construction rate of the Listvyazhnaya coal preparation plant, which was commissioned in August 2007.

The significant expansion of the investment program resulted in the increase of the amount of the Company's net debt, which at the end of 2007 increased by 181 million dollars to amount to 423 million dollars (or about 11 billion rubles).

However, the ratio of debt/EBITDA is still in the relatively safe zone to amount to 4.6.

PERSONNEL

Throughout 2007, the personnel number of the Group grew by 269, which is about 3% of the total personnel number. Whereas at the end of 2006, the personnel number was 8,064 persons, at the end of 2007 this number grew to 8,333 persons.



The personnel number growth was nearly entirely due to the increase in the number of personnel at the Listvyazhnaya coal preparation plant, including the plant itself and the personnel of the railway station working for the plant. The number of personnel working at the Novobachatsky open-pit mine, the Kostromovskaya mine and the Novaya-2 mine, as well as at Inskaya truck company (to satisfy the growing transportation needs of the Listvyazhnaya mine, the Listvyazhnaya coal preparation plant and the Novobachatsky open-pit mine), which was compensated by the reduction in the personnel number at the other enterprises of the Group.

The number of personnel working at the main coal production and preparation enterprises reduced in 2007 by implementation of the program for reduction of costs and for optimization of the Group's management structure. The number of personnel of the managing company (with branches) remained practically unchanged, despite expansion of the branch network of

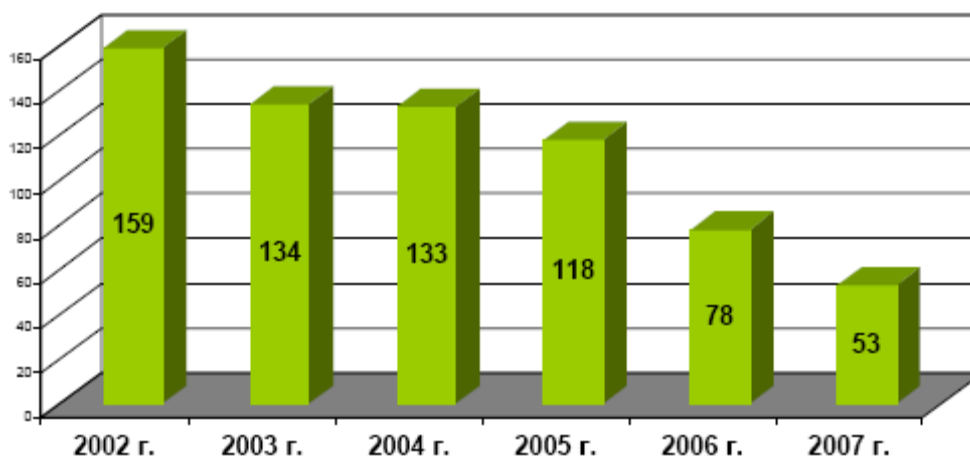
the Steel Mill Products Department and opening a remote site in Barnaul.

The average monthly work performance of a worker, according to the Kemerovo information and computing centre for 2007, grew to 115.8 tons/man, which is 28% higher than in 2006 (90.7 tons/man). Thus, it may be stated that coal production grew in 2007 practically entirely due to productivity enhancement and raised work performance.

INDUSTRIAL SAFETY

The injury rate of the Company in 2007 was reduced from 2006 by 32.1%. In total for 6 years (since 2002), the injury rate at the Group's enterprises has decreased **by a factor of 3**.

Total injury rate of Belon Group



Among the coal companies of Kuzbass, Belon Group is rated fourth for the general injury rate. With the exception of *Kuzbassrazrezugol*, the industry leader for industrial safety, Belon's industrial safety parameters are comparable to the parameters of such coal producers as Raspadskaya, Taldinskaya mining company and SDS.

We shall take maximum efforts to avoid injuries and losses related to temporary incapacity of our employees and are planning to get rated third or second in the line of Kuzbass mining companies for industrial safety.