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

The following is a discussion and analysis of our examined pro forma consolidated financial information for the years ended 31 December 2004 and 2005 and our reviewed unaudited pro forma consolidated financial information for the six months ended 30 June 2005 and 2006, both taking into account the MUK Group Acquisition. This discussion and analysis should be read in conjunction with our pro forma consolidated financial information and its related notes included elsewhere in this offering memorandum. 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 2004, 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 2004, 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 included elsewhere in this offering memorandum. We believe that our pro forma consolidated financial information forms the most relevant basis for the analysis of our results of operations. Our pro forma consolidated financial information presents the view of our business taken as a whole while our historical consolidated financial statements provide only a partial view of our business and operating results and shall be analysed only in conjunction with the pro forma consolidated financial information.

In addition, the following also contains a discussion and analysis of our historical consolidated financial condition and results of operations for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006. This discussion and analysis should be read in conjunction with our historical consolidated financial statements and their related notes included elsewhere in this offering memorandum. Moreover, our historical consolidated financial information has been revised for the years ended 31 December 2003 and 2004 to reflect the acquisition of the Acquired Companies representing business combinations involving entities under common control with us, which have been accounted for in our historical consolidated financial statements using the pooling of interests method to present our consolidated financial statements as if the acquisitions of such Acquired Companies occurred on the date such Acquired Companies were originally established.

Moreover, 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, including the risks discussed in the section of this offering memorandum entitled "Risk Factors" and elsewhere in this offering memorandum.

Overview

We are Russia's second-largest coking coal producer based on volume. 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, 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 IMC, as of 30 June 2006, we had total proved and probable reserves of approximately 781.5 million tonnes.

The Reorganisation

We recently 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% equity interests in Raspadskaya Preparation Plant, Raspadskaya Coal Company, Raspadsky Ugol and Raspadskaya Koksovaya (each an "Acquired Company," and collectively, the "Acquired Companies") historically owned by the Selling Shareholder, and (ii) acquiring a 100% equity interest in MUK-96 and its 99% owned subsidiary Razrez Raspadsky (the "MUK Group Acquisition"), both historically controlled by Adroliv or Adroliv's affiliates. In addition, in March 2006, ZAO "Raspadskaya," a closed joint stock company, was reorganised into an open joint stock company ("OAO").

The Reorganisation involved the following steps:

Acquired Companies Transaction

- On 16 June 2006, we entered into an agreement to acquire the Acquired Companies from the Selling Shareholder for the aggregate amount of $307.4 million. We financed such acquisition with our own funds of $7.4 million and a $300.0 million loan from Natexis Banques Populaires and ZAO Bank Natexis. This loan carries an interest of LIBOR + 0.85% per annum, with the repayment date of 30 June 2007. Our obligations under the loan are guaranteed by Evraz Group S.A., pursuant to a Guarantee and Indemnity Agreement, dated 7 July 2006. Prior to such acquisition, the Selling Shareholder owned a 100% equity interest in each Acquired Company.

MUK Group Acquisition

- On 14 September 2006, we acquired a 100% equity interest in MUK-96 from the Selling Shareholder in exchange for 300,650,000 of our newly issued ordinary shares. The new shares were issued to the Selling Shareholder 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 FFMS. MUK-96 holds a 99% ownership interest in Razrez Raspadsky. The remaining 1% interest is held by Raspadsky Ugol.

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 certain of our subsidiaries:

	Year of Acquisition of Controlling Interest	% Held as of 30 June 2006
OOO "Raspadskaya-Joy"	1992	100.00%
OOO "Montazhnik Raspadskoy"	1999	51.00%
OAO "Tomusinskoye Cargo Handling Unit"	2000	58.59%
OAO "Olzherasskoye Shaft-Sinking Unit"	2003	95.12%
OOO "Puteets"	2004	100.00%

Pro Forma Consolidated Financial Information

General

The discussion and analysis below are based primarily on our pro forma consolidated financial information which has been derived by the application of pro forma adjustments related to the MUK Group Acquisition to our historical consolidated financial statements. Our examined pro forma consolidated financial information for the years ended 31 December 2004 and 2005 and our reviewed unaudited pro forma consolidated financial information for the six months ended 30 June 2005 and 2006 give effect to the MUK Group Acquisition as if it had occurred as of 1 January 2004. For discussion and analysis of our historical consolidated financial conditions and results of operations please see "—IFRS Historical Results of Operations."

MUK-96 and Razrez Raspadsky historically had significant production and trading operations with ZAO "Raspadskaya", predecessor of OAO "Raspadskaya" and its subsidiaries, which affected the trading results of ZAO "Raspadskaya" reflected in the IFRS historical consolidated financial statements. Therefore, we believe that 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 of OAO "Raspadskaya" 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. The details of the transactions between ZAO "Raspadskaya," with its subsidiaries, MUK-96 and Razrez Raspadsky are discussed in "—Certain factors affecting our pro forma consolidated financial information" below.

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 offering memorandum, 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 carrying value of property, plant and equipment at 31 December 2004 and 2005, and depreciation and depletion charges for the year ended 31 December 2004 and 2005 were determined using a roll-back of property, plant and equipment from 31 May 2006 to 1 January 2004.

Certain factors affecting our pro forma consolidated financial information

Prior to the MUK Group Acquisition, in September 2006, Razrez Raspadsky was an entity under the control of Adroliv and Adroliv's affiliates. We purchased mining services from Razrez Raspadsky. In 2004 and 2005, on an audited historical basis, the cost of mining services rendered by Razrez Raspadsky amounted to approximately $29.9 million and $70.0 million, respectively. We sold raw coal produced under the mining services agreement to Razrez Raspadsky. Razrez Raspadsky purchased preparation services from various preparation plants (including Raspadskaya Preparation Plant) and sold the produced coal concentrate to our trading company Raspadsky Ugol at the sales prices close to the market prices. In our IFRS historical financial statements for the years ended 2004 and 2005, we recorded our transactions with Razrez Raspadsky related to the sales of raw coal and purchase of coal concentrate as processing services. The cost of these services represented the cost of coal concentrate purchased from Razrez Raspadsky net of the coal price charged to Razrez Raspadsky. These services amounted to approximately $19.4 million and $41.5 million for the years ended 2004 and 2005, respectively. As a result, mining and preparation services of Razrez Raspadsky are recorded in our IFRS historical financial statements for the years ended 2004 and 2005 and are eliminated in our pro forma consolidated financial information, which show the results of our operations as if the MUK Group Acquisition was effective as of 1 January 2004.

In addition, MUK-96 was an entity under control of Adroliv and Adroliv's affiliates. In 2004 and 2005, MUK-96 sold raw coal it produced to ZAO "Raspadskaya Financial and Industrial Company" ("RFPK"), an entity under control of Adroliv and Adroliv's affiliates. RFPK arranged for the preparation of this raw coal. It acted as trader of MUK-96 in 2004 and 2005 and earned trading margins on reselling activities. RFPK purchased preparation services from various preparation plants and subsequently sold part or all of the coal concentrate to our trading company Raspadsky Ugol. From 1 June 2006, MUK-96 ceased trading with RFPK. We recorded the purchase of coal concentrate from RFPK in our IFRS historical financial statements while in our pro forma income statement, for comparability purposes, we recognised trading margins earned by RFPK. Related income tax effect was recognised in the pro forma income statement for the years ended 31 December 2004 and 2005 at the Russian statutory profit tax rate of 24%. Net profit recognised on these transactions in the pro forma consolidated financial information was considered as a distribution to Adroliv and Adroliv's affiliates in the pro forma consolidated balance sheet.

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 for coking coal

Our results of operations are significantly dependent upon the demand for coking coal on the domestic and world market. The demand for coking coal is primarily influenced by the fluctuations in the steel industry and steel production, changes in coal production capacity and other related factors.

Steel industry

The major consumers of our coking coal are large domestic and foreign steel producers. Therefore, our results of operations have historically been influenced by the trends in the world steel market.

For the last several years, coal mining in Russia has been growing with production of coking coal reaching a peak in 2004, which reflected an increased demand from Russian metallurgical companies.

According to Rosinformugol, coking coal output in Russia declined by 6.9% to 69.9 million tonnes in 2005 compared to the high levels of approximately 75.1 million tonnes in 2004. During the period from January to May 2006, coking coal production further decreased in a manner consistent with a further decline in the steel market and our sales reflected, among others, such decline. Cyclical fluctuations in the steel industry in the future will continue to affect our sales of raw coal and coal concentrate. See "Risk Factors—Risks Related to Our Business—Our business and results of operations are dependent on coal markets which may be cyclical in nature."

The major portion of our revenues is derived from sales to large domestic steel producers such as MMK, Evraz and NLMK. The share of revenues from these plants accounted for up to 56% and 59% of our coal products revenue in 2005 and six months ended 30 June 2006, on the pro-forma basis, respectively. Further sales to these steel and metal producers will have a material influence on our trading results.

Approximately 19% and 28% of our total pro-forma raw coal and coal concentrate sales in 2004 and 2005, respectively, were made to Evraz through its related trading house Evrazresource for further delivery to iron and steel plants controlled by Evraz, such as NTMK, ZSMK and NKMK. The price at which our coal was offered to these related parties was negotiated on an arms-length basis and was on market terms.

Coking coal production capacities

Our results of operations are indirectly affected by the increase in the coal production capacities by our competitors. During the last several years, major steel groups have established control over coking coal producing companies through privatisations and further acquisitions.

Moreover, following a surge of coking coal prices in 2004 and 2005, a substantial increase in coking coal production capacities has been announced by a number of producers in the long term. This planned increase in production capacities may result in a greater competition amongst coking coal producers and thus affect the demand for our coal and impact our future trading results. 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 due to the following key factors:

- Requirement to commit to large capital expenditures against the backdrop of traditionally high maintenance capital expenditure carried out by the Russian coal miners;
- Significant lead times to a production launch at green-field underground mines;
- Decline of expertise in shaft-sinking and mining project management in the post-Soviet period; and
- Prevailing difficult geological and mining conditions that are likely to further aggravate as the mining is forced to go to deeper levels.

Prices for coking coal

International coking coal prices

Both world and domestic 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. In general, international prices for coking coal increased significantly in 2004 and 2005 as a result of a prevailing strong demand from the Asian region. International prices for coking coals vary significantly depending on the coal quality. The table below sets forth the historical trend for selected international contract price benchmarks:

International and Russian domestic coking coal price

	2004	2005	2006 (estimate)
	(in US dollars per tonne)		
International[1]			
Premium Hard Coking Coal	58.0	126.9	116.0
Standard Hard Coking Coal	55.0	125.0	105.0
Semi Soft Coking Coal/High-vol PCI	43.0	79.5	58.0
Domestic[2]			
Premium Hard Coking Coal	63.0	85.0	70.0
Standard Hard Coking Coal	39.3	62.0	51.1
Semi Soft Coking Coal/High-vol PCI	29.0	45.0	37.1

(1) Based upon Japanese Financial Year (April 1 to March 31) and FOB Australia.

(2) Ex-works.

Source: Deutsche UFG Research

Our coking coal prices

The table below represents the movement in our coal prices for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June		
	2004	2005	% change to 2004	2005	2006	% change to 2005
	(in US dollars per tonne, except percentages)					
Coal concentrate—average domestic price	54.2	79.9	47%	92.7	60.9	(34)%
Coal concentrate—average export price	47.2	65.2	38%	85.0	49.2	(42)%
Weighted average sales price of concentrate	**53.1**	**77.5**	**46%**	**91.8**	**59.1**	**(36)%**
Raw coal—average domestic price	28.6	48.8	71%	57.0	35.1	(38)%
Raw coal—average export price	36.2	44.7	23%	53.1	32.7	(38)%
Weighted average sales price of raw coal	**32.8**	**46.5**	**42%**	**55.0**	**35.0**	**(36)%**

Domestic prices for our raw coal and coal concentrate were generally higher on the domestic market. The average prices for our raw coal and coal concentrate reached their peak during the six months ended 30 June 2005 following the trends of the steel market. The prices started to decrease in the second half of 2005 which was a result of the temporary decline in the steel market, and as such, had a material impact on our trading results. Due to the unfavourable changes in the coal prices, our revenue from raw coal and coal concentrate sales in the second half of 2005 decreased by 29% as compared to the first half of 2005. The decrease in the coal prices continued during the six months ended 30 June 2006.

We do not generally 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 do not fix the sale price, but rather the price for coal is set periodically based upon negotiations between the parties. For further information on coal contract pricing in Russia, see "Industry—Coal Pricing" and "Our Company—Coal Supply Contracts".

Pro forma sales volumes

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

	Year ended 31 December			Six months ended 30 June		
	2004	2005	% change to 2004	2005	2006	% change to 2005
	(in thousands of tonnes, except percentages)					
Sales of coal concentrate Russia	5,051	4,706	(7)%	2,412	2,681	11%
Sales of coal concentrate export	902	925	3%	329	494	50%
Total sales of concentrate	**5,953**	**5,631**	**(5)%**	**2,741**	**3,176**	**16%**
Sales of raw coal Russia	1,286	842	(35)%	502	620	24%
Sales of raw coal export	1,593	1,106	(31)%	518	30	(94)%
Total sales of raw coal	**2,879**	**1,948**	**(32)%**	**1,020**	**650**	**(36)%**
Total raw coal and coal concentrate	**8,832**	**7,579**	**(14)%**	**3,761**	**3,825**	**2%**

Our development strategy over the past two years has focused on increasing higher-margin coal concentrate production and sales. Moreover, we believe we will be able to take advantage of the higher margins received from the sale of coal concentrate due to the commencement of the coal preparation operations by Raspadskaya Preparation Plant in the fourth quarter of 2005 which already had a positive impact on our results of operations during the six months ended 30 June 2006.

Russian coking coal output is mainly consumed by domestic customers. Although the pro forma volumes of our export concentrate sales were 50% higher in the six months ended 30 June 2006 than in the six months ended 30 June 2005, we continued to expand our position on the domestic market. Our pro forma sales volumes of raw coal and coal concentrate to Russian customers increased by 23% and 11%, respectively, in the six months ended 30 June 2006 in comparison with the six months ended 30 June 2005. The increase of the domestic sales allowed us to benefit from more favourable prices on the Russian market in comparison with export sales prices.

Pro forma production volumes

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

The table below sets forth our pro forma coal production for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June		
	2004	2005	change, %	2005	2006	change, %
	(in thousands of tonnes, except percentages)					
Raw coal produced by Raspadskaya mine	8,216	6,395	(22)%	3,314	3,446	4%
Raw coal produced by Razrez Raspadsky	1,505	2,211	47%	943	1,056	12%
Raw coal produced by MUK-96	912	1,111	22%	604	633	5%
Total raw coal production	*10,633*	*9,717*	(9)%	*4,861*	*5,135*	6%
Raw coal preparation	7,702	7,471	(3)%	3,682	4,301	17%
Coal concentrate production	5,956	5,621	(6)%	2,731	3,223	18%

We have been developing coal production at Razrez Raspadsky since 2003 and MUK-96 since 1996. Coal production at Razrez Raspadsky and MUK-96 have been increasing at a high growth rate for the past few years.

Raw coal production at the Raspadskaya mine decreased by 22% in the year ended 31 December 2005 in comparison with the year ended 31 December 2004. This temporary decrease was due to an underground fire that occurred in June 2005 as a result of a bolt of lightening striking a surface unit used for the extraction of a methane-air mixture at the Raspadskaya mine. The fire has been classified as an exogenous *force majeur* event. We partially compensated for the suspended production at the damaged area by developing a different face of the Raspadskaya mine. We intend to fully recover from the negative affect of the fire in 2007.

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 pro forma cash cost of production for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	(in thousands of US dollars)			
Cost of sales	**210,792**	**251,964**	**127,947**	**114,291**
Less:				
Cost of resold concentrate	—	(2,117)	(1,289)	—
Cost of other resold goods	(721)	(1,131)	(343)	(99)
Change in finished goods	160	6,738	4,096	2,533
Less depreciation, amortization and depletion	(78,820)	(86,861)	(44,293)	(43,679)
Total cash cost of production	**131,411**	**168,593**	**86,118**	**73,046**
Including:				
Total cash cost of raw coal production	*89,893*	*124,294*	*61,442*	*62,777*
Total cost of preparation	*41,518*	*44,299*	*24,676*	*10,269*

Cash cost of production represents cost of sales before cost of resold goods, changes in finished goods and depreciation, amortisation and depletion. 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 pro forma cash cost of raw coal produced for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June		
	2004	2005	change, %	2005	2006	change, %
	(in thousands of US dollars, except percentages)					
Cash cost of raw coal production						
Cash cost of raw coal produced by Raspadskaya mine	73,649	84,170	14%	41,524	44,309	7%
Cash cost of raw coal produced by Razrez Raspadsky	9,498	27,167	186%	13,108	11,852	(10)%
Cash cost of raw coal produced by MUK-96	6,746	12,957	92%	6,810	6,616	(3)%
Total cash cost of raw coal production	*89,893*	*124,294*	*38%*	*61,442*	*62,777*	*2%*
	(in US dollars per tonne, except percentages)					
Cash cost per tonne of raw coal produced by Raspadskaya mine	9.0	13.2	47%	12.5	12.9	3%
Cash cost per tonne of raw coal produced by Razrez Raspadsky	6.3	12.3	95%	13.9	11.2	(19)%
Cash cost per tonne of raw coal produced by MUK-96	7.4	11.7	58%	11.3	10.4	(8)%
Weighted average cash cost per tonne of raw coal produced	**8.5**	**12.8**	**51%**	**12.6**	**12.2**	**(3)%**

Pro forma 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 overall increase of production costs at Razrez Raspadsky and MUK-96 by 186% and 92% in the year ended 31 December 2005, respectively, resulted from the increased production volumes.

The increase of the pro forma cash cost per tonne of raw coal production at all production facilities in the year ended 31 December 2005 was due to the increases in the average monthly salary of employees and related taxes, as well as in raw material prices and electricity tariffs. In 2005, two more factors added to the increase in pro forma production cost—pension costs as a result of the recognised pension liabilities by OAO "Raspadskaya" and third party services related to the strip mine works performed by Razrez Raspadsky. Salaries, prices and tariffs fluctuations will continue to have significant impact on our profitability and competitiveness.

The cost per tonne at Razrez Raspadsky in 2005 was affected by the high volume of works associated with the overburden removal and site preparation which added to the increase of the cash cost per tonne at this production facility. During the six months ended 30 June 2006, we reduced the volumes of overburden removal outsourced to third parties as we started removing the overburden with our internal resources. This allowed us to reduce the cash cost per tonne at Razrez Raspadsky in the six months ended 30 June 2006 in comparison with the six months ended 30 June 2005.

Higher cash costs per tonne of raw coal production at the Raspadskaya mine in comparison with Razrez Raspadsky and MUK-96 is a result of higher fixed costs associated with the maintenance of the larger scale production facilities as well as by the fact that the Raspadskaya mine operates at deeper levels. MUK-96 is our lowest-cost production output because it mines coal from the shallow seams having recently commenced operations.

The table below sets forh our pro forma coal concentrate production and costs of preparation for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June		
	2004	2005	change, %	2005	2006	change, %
	(in thousands of tonnes, except percentages)					
Raw coal used in concentrate preparation	7,702	7,471	(3)%	3,682	4,301	17%
Coal concentrate produced	5,956	5,621	(6)%	2,731	3,223	18%
Output ratio	77%	75%	(3)%	74%	75%	1%
	(in thousands of US dollars, except percentages)					
Estimated cash cost of raw coal used in concentrate preparation*	65,467	95,629	46%	46,393	52,472	13%
Cash cost of preparation	41,518	44,299	7%	24,676	10,269	(58)%
Total cash cost of coal concentrate produced	106,985	139,928	31%	71,069	62,741	(12)%
	(in US dollars per tonne, except percentages)					
Preparation cash cost per tonne of raw coal used	5.4	5.9	9%	6.7	2.4	(64)%
Preparation cash cost per tonne of coal concentrate produced	7.0	7.9	13%	9.0	3.2	(64)%
Total cash cost per tonne of coal concentrate produced	18.0	24.9	38%	26.0	19.5	(25)%

* 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.

Pro forma coal concentrate cash production costs include preparation services rendered by the third parties and transportation of raw coal to such third parties' preparation facilities. Changes in prices for these services have an impact on our results of operations. In the fourth quarter 2005, our wholly-owned subsidiary Raspadskaya Preparation Plant commenced operations.

The cash costs of internal coal preparation by Raspadskaya Preparation Plant are significantly lower than the costs of preparation services by third party plants, including the associated transportation costs. We plan to further decrease the use of the third parties' preparation services and to increase the use of our own preparation of concentrate. Additionally, our own preparation plant is located close to the raw coal production facilities, which we expect would allow us to also benefit from a reduction of coal transportation expenses.

The significant cost reduction resulting from the increased volumes of the internal concentrate production is illustrated in the comparison of cost per tonne data for the six months ended 30 June 2005 and 2006 in the table above.

The table below sets forth our pro forma preparation costs of concentrate produced and of raw coal processed for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June		
	2004	**2005**	**change, %**	**2005**	**2006**	**change, %**
	(in thousands of tonnes, except percentages)					
Raw coal prepared by Raspadskaya Preparation Plant	—	1,199	n.a.	—	3,442	n.a.
Raw coal prepared by third parties	7,702	6,272	(19)%	3,682	859	(77)%
Total raw coal preparation	*7,702*	*7,471*	(3)%	*3,682*	*4,301*	17%
Coal concentrate produced by Raspadskaya Preparation Plant	—	929	n.a.	—	2,596	n.a.
Coal concentrate produced by third parties	5,956	4,692	(21)%	2,731	627	(77)%
Total coal concentrate produced	*5,956*	*5,621*	(6)%	*2,731*	*3,223*	18%
	(in thousands of US dollars, except percentages)					
Cash cost of preparation by Raspadskaya Preparation Plant	—	1,831	n.a.	—	4,409	n.a.
Cash cost of preparation by third parties	27,298	27,914	2%	16,459	4,083	(75)%
Transportation	14,220	14,554	2%	8,217	1,777	(78)%
Total cost of preparation	*41,518*	*44,299*	7%	*24,676*	*10,269*	(58)%
	(in US dollars per tonne, except percentages)					
Preparation cost per tonne of raw coal used by Raspadskaya Preparation Plant	—	1.5	n.a.	—	1.3	n.a.
Preparation cost per tonne of raw coal used by third parties	3.5	4.5	29%	4.5	4.8	7%
Transportation cost per tonne of raw coal used by third parties	1.8	2.3	28%	2.2	2.1	(5)%
Preparation cost per tonne of coal concentrate produced by Raspadskaya Preparation Plant	—	2.0	n.a.	—	1.7	n.a.
Preparation cost per tonne of coal concentrate produced by third parties	4.6	5.9	28%	6.0	6.5	8%
Transportation cost per tonne of coal concentrate produced by third parties	2.4	3.1	29%	3.0	2.8	(7)%

The preparation pro forma cash cost per tonne of raw coal used for concentrate production varies depending on the preparation plant, mainly due to higher cost of raw coal transportation to the third party plants in the remote locations. The preparation cash cost per tonne of raw coal prepared at Raspadskaya Preparation Plant in the six months ended 30 June 2006 was approximately 81% lower than preparation costs at other third party plants (inclusive of related transportation expense).

Currently, Raspadskaya Preparation Plant is capable of preparing 7.5 million tonnes of raw coal annually (nameplate capacity). We are targeting an additional preparation nameplate capacity of 3.0 million tonnes of raw coal per annum be put into operation at Raspadskaya Preparation Plant during 2008 which would allow us to prepare approximately 10.5 million tonnes of raw coal per annum with our internal sources. Therefore, we expect to decrease the use of the third parties' preparation services and produce most of the coal concentrate from our raw coal at our own preparation plant in the near future. This would allow us to significantly benefit from the cost reduction at the coal preparation stage. The approximate cash cost reduction effect would amount to $6.5 million and $19.8 million in the year ended 31 December 2005 and the six months ended 30 June 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 TCHU 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 raw coal and coal concentrate is transported for final delivery to customers by Russian Railways via the federal railway system. Currently, the Russian government regulates rail tariffs and may increase these tariffs in the future, as it has done in the past. 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. For further information on the risk of increases in railway tariffs, see "Risk Factors—Risks Related to our Business—Our product delivery relies on Russia's railway transportation system."

Exchange rates and inflation rates

Our functional currency is the Russian rouble. Our presentation currency is the US dollar. Our revenues from the domestic sales accounted for 79% and 88% of total raw coal and coal concentrate pro forma revenues for the year ended 31 December 2005 and six months ended 30 June 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 US dollar has depreciated against the rouble. This depreciation has increased our revenues and costs presented in US dollar terms in our consolidated financial statements. For further information on the average and period-end exchange rates used for the translation of rouble amounts into US dollars, see the section entitled "Presentation of Financial and Other Information."

Our revenues are also affected by the inflation rates in Russia.

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 Examined Pro Forma Results of Operations for the Years ended 31 December 2004 and 2005

The table below sets forth our examined pro forma consolidated income statement for the years ended 31 December 2004 and 2005:

	Year ended 31 December		
	2004	2005	change, %
	(in thousands of US dollars, except percentages)		
Revenue			
Sale of goods	413,276	531,765	29%
Rendering of services	7,458	9,409	26%
Cost of revenues	(210,792)	(251,964)	20%
Gross profit	**209,942**	**289,210**	**38%**
Gross profit margin	**50%**	**53%**	
Selling and distribution costs	(5,476)	(5,255)	(4)%
General and administrative expenses	(20,550)	(30,190)	47%
Social and social infrastructure maintenance expenses	(3,956)	(7,118)	80%
Gain (loss) on disposal of property, plant and equipment	133	(1,188)	n.a.
Foreign exchange gains/(losses), net	894	(468)	n.a.
Other operating income (expenses), net	(1,665)	(10,307)	519%
Profit from operating activities	**179,322**	**234,684**	**31%**
Profit from operating activities margin	**43%**	**43%**	
Dividend income	—	93	n.a.
Interest income	2,340	3,540	51%
Interest expense	(8,094)	(9,092)	12%
Profit before income taxes	**173,568**	**229,225**	**32%**
Profit before income taxes margin	**41%**	**42%**	
Income tax expense	(45,618)	(63,813)	40%
Net profit	**127,950**	**165,412**	**29%**
Net profit margin	**30%**	**31%**	

Pro forma revenue

The table below summarises our pro forma domestic and export revenues by product types for the years ended 31 December 2004 and 2005:

	Year ended 31 December				
	2004		2005		
	Amount	% of total revenue	Amount	% of total revenue	% change to 2005
	(In thousands of US dollars, except percentages)				
Sales of coal concentrate Russia	273,579	65%	376,036	69%	37%
Sales of coal concentrate export	42,601	10%	60,266	11%	41%
Total sales of coal concentrate	**316,180**	**75%**	**436,302**	**80%**	**38%**
Sales of raw coal Russia	36,760	9%	41,122	8%	12%
Sales of raw coal export	57,667	14%	49,443	9%	(14)%
Total sales of raw coal	**94,427**	**23%**	**90,565**	**17%**	**(4)%**
Sale of other goods and rendering of services	**10,127**	**2%**	**14,307**	**3%**	**41%**
Total sales	**420,734**	**100%**	**541,174**	**100%**	**29%**

Approximately 97% of our pro forma revenues in the year ended 31 December 2005 were derived from sales of raw coal and coal concentrate. Our pro forma coal concentrate sales increased from 75% of total revenues in the year ended 31 December 2004 to 80% in the year ended 31 December 2005 in line with our strategy of substituting cheaper raw coal with more expensive products.

Pro forma revenues in the year ended 31 December 2005 increased by 29% primarily due to the prices for raw coal and coal concentrate being significantly higher during the first half of the year ended

31 December 2005 as compared with the year ended 31 December 2004. The subsequent decline of demand and prices in the six months ended 31 December 2005 partially offset the effect of the six months ended 30 June 2005.

The major portion of our pro forma raw coal and coal concentrate sales are made to Russian customers which primarily include large metal and steel plants. Our pro forma sales to these Russian customers provide us with our highest cash margin. Our major customers in 2004 and 2005 were Evraz, MMK and NLMK. The higher share of the pro forma domestic revenues in year ended 31 December 2005 was a result of the increased purchases by our related party Evraz, through its subsidiary Evrazresource, which accounted for 19% and 28% of our pro forma revenues from pro forma raw coal and coal concentrate sales in the years ended 31 December 2004 and 2005, respectively. Evrazresource purchases raw coal and coal concentrate for Evraz's metal and steel plants on market terms. Total consumption of raw coal and coal concentrate by our other two large customers, MMK and NLMK plants, accounted for 29% and 28% of our pro forma coal products revenues in the years ended 31 December 2004 and 2005, respectively.

Pro forma export revenues amounted to $100.3 million and $109.7 million in the years ended 31 December 2004 and 2005, respectively. The major portion of the pro forma export sales are made to Ukraine and Hungary. Pro forma export sales represent 24% and 21% of total coal products revenues in the years ended 31 December 2004 and 2005, respectively.

The growth of the pro forma coal concentrate revenues in the year ended 31 December 2005 was mainly a result of high prices at the beginning of 2005 while the pro forma volumes of sold coal concentrate showed a 5% decrease which primarily occurred on the domestic market.

The decrease of the pro forma raw coal's share of total pro forma revenue, which had started in 2004 and had been continuing throughout 2005, resulted from the higher volumes of raw coal used for the concentrate production. As result, high domestic coal prices at the beginning of 2005 were offset by the decline in volumes of coal sold. Nonetheless, our pro forma domestic revenues from raw coal sales in the year ended 31 December 2005 were 12% higher than in the year ended 31 December 2004.

Pro forma sales of other goods and rendering of services includes railway tariffs recharged to customers, transportation services of TCHU provided to local producers and preparation plants, sales of various goods and service revenues of our group. Railway tariff represented transportation services of external providers paid by us and subsequently billed to and paid by our customers. It remained stable in 2005 as the deliveries were generally in line with 2004. The increase in other pro forma sales of goods and rendering of services in 2005 was generated by miscellaneous sales.

Pro forma cost of revenues

The table below sets forth the breakdown of pro forma cost of revenues by major categories for the years ended 31 December 2004 and 2005:

	Year ended 31 December				
	2004		2005		
	Amount	% of production costs	Amount	% of production costs	% change to 2004
	(in thousands of US dollars, except percentages)				
Cost of production					
Depreciation, amortisation and depletion	78,820	37%	86,861	34%	10%
Payroll	29,481	14%	40,877	16%	39%
Materials	24,366	12%	35,280	14%	45%
Preparation services from third parties	27,298	13%	27,914	11%	2%
Mineral resources tax and other taxes in production costs	12,810	6%	15,238	6%	19%
Transportation	14,220	7%	14,554	6%	2%
Payroll tax	8,884	4%	11,053	4%	24%
Electricity	4,270	2%	6,297	2%	47%
Pension costs	52	0%	4,251	2%	n.a.
Other services and costs	10,030	5%	13,129	5%	31%
Cost of production	*210,231*	*100%*	*255,454*	*100%*	*22%*
Cost of resold concentrate	—		2,117		n.a.
Cost of other resold goods	721		1,131		57%
Change in finished goods	(160)		(6,738)		4111%
Cost of revenues	**210,792**		**251,964**		**20%**

Although our pro forma raw coal production decreased in the year ended 31 December 2005, our pro forma cost of production, including cost of coal mining and subsequent cost of coal concentrate production, increased over the reviewed period primarily due to the higher materials prices, electricity tariffs, increased average salaries and higher fees charged by the third party preparation plants.

Pro forma depreciation, amortisation and depletion

Depreciation, amortisation and depletion was the major component of our pro forma cost of production, comprising 37% and 34% in the years ended 31 December 2004 and 2005, respectively. The depletion charge for each period is calculated using the units of production method.

The table below sets forth our pro forma depreciation, amortisation and depletion in production costs for the years ended 31 December 2004 and 2005:

	Year ended 31 December		
	2004	2005	Change, %
	(in thousands of US dollars)		
Depreciation and amortisation	50,282	46,003	(9)%
Depletion	28,538	40,858	43%
Total	**78,820**	**86,861**	**10%**

The decrease of depreciation and amortisation in 2005 was caused by the temporarily reduced operations of one section at the Raspadskaya mine as a result of a fire in June 2005. Higher depletion charges in 2005 were a result of increased production at Razrez Raspadsky and MUK-96.

Pro forma payroll and payroll taxes

Payroll and related payroll taxes accounted for 18% and 20% of production costs in 2004 and 2005, respectively.

The table below sets forth our pro forma payroll costs and related payroll taxes, as included in cost of sale and in general and administrative expenses, for the years ended 31 December 2004 and 2005:

	Year ended 31 December		% change to 2004
	2004	2005	
Average total number of employees	6,282	6,840	9%
Total net payroll (in thousands of US dollars)	39,014	54,473	40%
Total payroll taxes (in thousands of US dollars)	11,658	14,265	22%
Average annual payroll per employee, net (in US dollars)	6,210	7,964	28%
Effective payroll tax rate, %	30%	26%	(10)%

The increase of the pro forma payroll costs in the year ended 31 December 2005 resulted from a 9% increase in the number of our employees and 28% growth of the average monthly salary of employees reflecting the above-average labour cost inflation in the period. The increase in personnel is primarily attributable to Razrez Raspadsky due to the addition of operators for new operating equipment (bulldozers, excavators and dump trucks) acquired in 2005. Also, in 2004 and 2005, MUK-96 hired temporary workers to perform installation works at its mining face.

We estimate that the fixed component of the direct workers payroll approximates 30%.

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.

Pro forma preparation services and transportation costs

Costs associated with coal preparation by third parties included the coal preparation services and transportation expenses related to the delivery of raw coal to the preparation plants. The costs of coal preparation services by third parties accounted for 11% of the total production costs in 2005 in comparison with 13% in 2004. Transportation services accounted for 6% of the total production costs in 2005 as opposed to 7% in 2004. Both the cost of preparation services and related transportation expenses increased by 2% in 2005 in comparison with the previous year due to the increase in prices for these services.

Prior to the fourth quarter 2005, all coal preparation was outsourced to third parties. After Raspadskaya Preparation Plant commenced operations in the fourth quarter 2005, we started coal preparation internally. As a result of this, the volumes of coal preparation outsourced to third party plants decreased in 2005, which has positively impacted our results.

Pro forma mineral resources tax and other taxes in production costs

Taxes included in pro forma production costs primarily include mineral resources use tax. Mineral resources tax and other taxes accounted for 6% of pro forma production costs in the years ended 31 December 2004 and in 2005. In the year ended 31 December 2005, mineral resources tax and other taxes showed a 19% increase in comparison with the previous year as a result of the increase in coal prices, and thereby mineral resources tax, during that period.

Pro forma materials, electricity and transportation costs

The increase in pro forma materials, electricity and transportation costs in the year ended 31 December 2005 was primarily caused by the higher prices and tariffs as compared with the previous periods. Also, the increased consumption of fuel, lubricants and spare parts was caused primarily by the extended coal extraction and strip mining works in 2005 by Razrez Raspadsky and MUK-96.

Pro forma pension costs

Besides mandatory payments to the State Pension Fund recorded as part of the payroll tax expense, we provide additional pensions and other post-employment benefits to substantially all of our employees in the form of non-obligatory contributions to a non-profit organisation called Pensioner Raspadskoy, which provides regular pension payments to our retired employees in addition to the obligatory state pension payments.

Prior to 2005, we did not accrue any liabilities in relation to our contributions to Pensioner Raspadskoy. In 2005, the liability was recognised in the balance sheet in respect of post-employment benefits which amounted to the present value of the defined benefit obligation at the balance sheet calculated using the projected unit credit method, together with adjustments for unrecognised actuarial gains or losses and past service costs. The recognition of this liability in 2005 resulted in a significant expense of $5.2 million recognised in financial statements for this year (including $4.2 million recorded as part of production costs and $1.2 million recognised in general and administrative expenses).

Other pro forma services and costs

The increase in other pro forma services and costs was mainly driven by third party services rendered to Razrez Raspadsky in relation to the strip mining operations extensively performed in 2005 (rock blasting, recovery of the excavating part of the deep mining complex after rock bursts and transportation of the rock mass to the mine dump).

Pro forma gross profit

As a result of high coal prices in the six months ended 30 June 2005 and favourable market trends, our pro forma gross profit increased by 38% from $209.9 million in the year ended 31 December 2004 to $289.2 million in the year ended 31 December 2005. The increase in gross profit margin from 50% in 2004 to 53% in the year ended 31 December 2005 was primarily due to the raw coal and coal concentrate prices growth exceeding the growth of cost per tonne of raw coal and coal concentrate produced by us.

Pro forma expenses

Pro forma selling and distribution costs

In the years ended 31 December 2004 and 2005, pro forma selling and distribution costs consisted of the transportation of coal concentrate sold to NLMK on terms FCA Lipetsk. The related railway tariff charged by third party railway companies was included both in revenues and selling expenses. The tariff amounted to approximately $5.0 million in the years ended 31 December 2004 and 2005, respectively. Selling and distribution costs also include customs fees pertaining to the export sales. However, these fees are insignificant as compared to the transportation costs.

The decrease in pro forma selling and distribution costs in the year ended 31 December 2005 was insignificant and primarily resulted from declining export sales and increased share of domestic sales and, therefore, the export and customs fees were reduced.

Pro forma general and administrative expenses

The table below sets forth our pro forma general and administrative expenses for the years ended 31 December 2004 and 2005:

	Year ended 31 December				
	2004	**% of total**	**2005**	**% of total**	**% change to 2004**
	(In thousands of US dollars, except percentages)				
Payroll	9,533	46%	13,596	45%	43%
Property and other taxes	2,343	11%	3,932	13%	68%
Payroll tax	2,773	13%	3,211	11%	16%
Pensions costs	—	0%	1,187	4%	n.a.
Raw materials	636	3%	809	3%	27%
Insurance	516	3%	605	2%	17%
Depreciation	680	3%	368	1%	(46)%
Electricity	84	0%	80	0%	(5)%
Other services and costs	3,985	19%	6,402	21%	61%
Total	**20,550**	**100%**	**30,190**	**100%**	**47%**

The increase of our pro forma general and administrative expenses in the year ended 31 December 2005 primarily resulted from the increased activity of our management company Raspadskaya Coal Company, increased bonuses to employees and increased headcount of management, administrative and accounting personnel due to the commencement of Raspadskaya Preparation Plant operations.

The increase in employee compensations in the year ended 31 December 2005, both payroll costs and the related taxes, was primarily due to the growing number of Raspadskaya Coal Company employees in comparison with the year ended 31 December 2004.

Pro forma taxes accounted for 11% and 13% of the general and administrative expenses in the years ended 31 December 2004 and 2005, respectively. Pro forma taxes included property tax, environmental tax, land tax, transportation tax and land lease costs. The increase of pro forma taxes in the year ended 31 December 2005 was due to the increase in the property tax as a result of launching of our own preparation plant and the higher pollution tax in comparison with the year ended 31 December 2004.

Pro forma general and administrative expenses in the year ended 31 December 2005 also included pension costs related to the pension contributions that we make to a non-for-profit organisation Pensioner Raspadskoy in addition to obligatory state pension payments. Please see "—Overview of the Examined Pro Forma Results of Operations for the Years ended 31 December 2004 and 2005—Pro forma cost of revenues—Pro forma pensions costs" above for further details.

The decrease of the pro forma depreciation expense in 2005 was partially due to the fact that some capital repairs in TCHU were written off during that period which decreased the basis for depreciation calculation.

Other pro forma services and costs include information, communication, consulting, audit and other fees. The increase of other services and costs by 61% in 2005 was associated with increased audit and consulting fees during that period and with various one time administrative costs.

Pro forma 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 amounted to $4.0 million and $7.1 million in the years ended 31 December 2004 and 2005, respectively. As our pro forma profits increased in the year ended 31 December 2005, we increased donations to social infrastructure during that period in comparison with the year ended 31 December 2004.

Pro forma gain (loss) on disposal of property, plant and equipment

Pro forma gains and losses on disposal of property, plant and equipment were insignificant in the year ended 31 December 2004. The loss of $1.2 million incurred in the year ended 31 December 2005 relates to the write off of certain capital repairs. The increased losses from disposal of property, plant and equipment in the year ended 31 December 2005 were due to the write offs of capitalised fixed assets repairs in TCHU.

Pro forma foreign exchange gain (loss), net

Pro forma foreign exchange gains and losses relate to translation difference arising from revaluation of assets and liabilities denominated in foreign currencies (primarily US dollar denominated loans) and exchange rate differences on sales and purchase of foreign currencies.

Pro forma other operating expenses, net

Other pro forma operating income and expenses mainly consist of revenues and costs associated with non-core aspects of our business such as rent, canteen maintenance and other non-recurring items. The increase of other operation expenses in the year ended 31 December 2005 was due to the non-recurring costs incurred in relation to the damages caused by a fire in the Raspadskaya mine in June 2005. The cost of restoration amounted to approximately $7.6 million in the year ended 31 December 2005.

Pro forma profit from operating activities

Pro forma profit from operating activity increased from $179.3 million in the year ended 31 December 2004 to $234.7 million in the year ended 31 December 2005. In the years ended 31 December 2004 and 2005, operating profit margin was 43%. The lower growth rate of the operating profit margin as compared to the gross margin earned in the year ended 31 December 2005 was mainly caused by the costs related to restoration of the damaged mine referred to above.

Pro forma interest income

Pro forma interest income amounted to $2.3 million and $3.5 million in the years ended 31 December 2004 and 2005, respectively, and related to short-term deposits held in various banks. Deposits were held with Bank of Moscow, CB Garant-Invest, Vneshtorgbank and Sberbank. The deposits were held for the short-term cash management purposes.

Pro forma interest expense

Pro forma interest expense amounted to $8.1 million and $9.1 million in the years ended 31 December 2004 and 2005, respectively. Our pro forma interest expense primarily related to interest on loans of $7.0 million and $8.2 million in the years ended 31 December 2004 and 2005, respectively. The major portion of interest expense related to loans obtained by Raspadskaya Preparation Plant at its development stage. The interest expense also included interest on the finance lease of equipment by OAO "Raspadskaya," Razrez Raspadsky and MUK-96 in the amounts of $0.8 million and $0.6 million in the years ended 31 December 2004 and 2005, respectively.

Pro forma profit before income taxes

Our pro forma profit before income taxes increased from $173.6 million in the year ended 31 December 2004 to $229.2 million in the year ended 31 December 2005.

Pro forma income tax expense

Our pro forma income tax expense was $45.6 million and $63.8 million in the years ended 31 December 2004 and 2005, respectively. The substantial increase in income tax was a result of higher pro forma profits received in the year ended 31 December 2005. Effective income tax rates for the years ended 31 December 2004 and 2005 were 26% and 28%, respectively, which is higher than the statutory rate for the Russian Federation (24%) due to the fact that some costs incurred during the periods were not tax deductible or only partially deductible.

Pro forma profit after tax

Our pro forma profit after tax increased in the year ended 31 December 2005 as compared to the year ended 31 December 2004 and amounted to $128.0 million and $165.4 million, respectively, reflecting the same trends as pro forma gross profit and pro forma profit before income taxes.

Pro forma EBITDA

The following table sets forth our pro forma EBITDA[1] calculation for the years ended 31 December 2004 and 2005:

	Year ended 31 December	
	2004	2005
	(In thousands of US dollars)	
Net profit	**127,950**	**165,412**
Adjusted for:		
Depreciation and amortisation[2]	50,962	46,371
Depletion	28,538	40,858
Dividend income	—	(93)
Interest income	(2,340)	(3,540)
Interest expense	8,094	9,092
Income tax expense	45,618	63,813
EBITDA	**258,822**	**321,913**
EBITDA, % of revenue	*62%*	*59%*

(1) Pro forma EBITDA represents net pro forma profit before interest income (expense), dividend income, income taxes and depreciation, amortisation and depletion. We present pro forma 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. Pro forma 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 pro forma and historical IFRS operating results and are using pro forma EBITDA only as a supplement. Pro forma EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Pro forma EBITDA is not a 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 or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, pro forma EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) Depreciation and amortisation for the year ended 31 December 2004 includes charges relating to cost of sales and general and administrative expenses amounting to \$50.3 million and \$0.7 million, respectively. Depreciation and amortisation for the year ended 31 December 2005 includes charges relating to cost of sales and general and administrative expenses amounting to \$46.0 million and \$0.4 million, respectively.

Overview of the Reviewed Unaudited Pro Forma Results of Operations for the Six Months Ended 30 June 2005 and 2006

The table below sets forth our reviewed unaudited pro forma consolidated income statement for the six months ended 30 June 2005 and 2006.

	Six months ended 30 June		
	2005	2006	change, %
	(in thousands of US dollars)		
Revenue			
Sale of goods	310,544	216,394	(30)%
Rendering of services	3,137	1,923	(39)%
Cost of revenues	(127,947)	(114,291)	(11)%
Gross profit	**185,734**	**104,026**	**(44)%**
Gross profit margin	**59%**	**48%**	
Selling and distribution costs	(3,534)	(5,915)	67%
General and administrative expenses	(14,183)	(18,779)	32%
Social and social infrastructure maintenance expenses	(4,150)	(2,853)	(31)%
Loss on disposal of property, plant and equipment	(432)	(471)	9%
Foreign exchange gains/(losses), net	(425)	694	n.a.
Other operating income (expenses), net	(4,252)	(879)	(79)%
Profit from operating activities	**158,758**	**75,823**	**(52)%**
Profit from operating activities margin	**51%**	**35%**	
Interest income	2,158	544	(75)%
Interest expense	(4,843)	(5,291)	9%
Profit before income taxes	**156,073**	**71,076**	**(54)%**
Profit before income taxes margin	**50%**	**33%**	
Income tax expense	(39,760)	(20,131)	(49)%
Net profit	**116,313**	**50,945**	**(56)%**
Net profit margin	**37%**	**23%**	

The description of the major items and the comparison of the six months ended 30 June 2005 and 2006 results of operations is presented on the following pages.

Pro forma revenue

The following table sets forth our pro forma domestic and export revenue for the six months ended 30 June 2005 and 2006:

	Six months ended June 30,				
	2005		2006		
	Amount	% of total revenue	Amount	% of total revenue	% change to 2005
	(In thousands of US dollars, except percentages)				
Sales of coal concentrate Russia	223,637	71%	163,367	75%	(27)%
Sales of coal concentrate export	28,002	9%	24,345	11%	(13)%
Total sales of coal concentrate	**251,639**	**80%**	**187,712**	**86%**	**(25)%**
Sales of raw coal Russia	28,614	9%	21,762	10%	(24)%
Sales of raw coal export	27,509	9%	989	0%	(96)%
Total sales of raw coal	**56,123**	**18%**	**22,751**	**10%**	**(59)%**
Sale of other goods and rendering of services	5,919	2%	7,854	4%	33%
Total revenue	**313,681**	**100%**	**218,317**	**100%**	**(30)%**

Pro forma revenues generated during the six months ended 30 June 2006 were 30% lower as compared to the respective period of the previous year mostly due to the weighted average of raw coal and coal concentrate prices being approximately 36% lower during the six months ended 30 June 2006, while during the six months ended 30 June 2005 coal prices were at their peak.

The pro forma sales volumes of coal concentrate on the domestic and export markets increased by 11% and 50%, respectively, during the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. This has partially mitigated the negative impact of coal price fluctuations.

The share of pro forma coal concentrate sales in total pro forma revenue increased from 80% during the six months ended 30 June 2005 to 86% during the six months ended 30 June 2006. The decrease in the volume and share of raw coal in the total pro forma sales resulted from growing consumption of raw coal for our internal concentrate production upon commencement of Raspadskaya Preparation Plant operations in the fourth quarter of 2005.

Pro forma revenues from domestic customers accounted for 82% and 88% of the total pro forma raw coal and concentrate revenues during the six months ended 30 June 2005 and 2006, respectively. Our average realised sales prices on the domestic market were higher than on export sales both in the first half of 2005 and 2006. MMK and NLMK plants continue to generate the major portion of our domestic revenues and remain our main customers. Approximately 26% and 37% of pro forma revenue from coal products sales was received from these plants during the six months ended 30 June 2005 and 2006, respectively. Our related party Evrazresource was also among our major customers and accounted for 33% and 22% of the pro forma coal products revenues during the six months ended 30 June 2005 and 2006, respectively. Most of the export sales were made to the large Ukrainian customers.

Pro forma cost of revenues

The analysis of pro forma cost of revenues incurred over the six months ended 30 June 2005 and 2006 is provided below.

	Six months ended 30 June				
	2005		2006		
	Amount	**% of production costs**	**Amount**	**% of production costs**	**% change to 2005**
	(in thousands of US dollars, except percentages)				
Cost of production					
Depreciation, amortisation and depletion	44,293	34%	43,679	37%	(1)%
Payroll	20,008	15%	24,240	21%	21%
Materials	17,625	14%	18,267	16%	4%
Mineral resources tax and other taxes in production costs	9,455	7%	6,696	6%	(29)%
Payroll tax	6,547	5%	6,668	6%	2%
Electricity	3,221	2%	5,389	5%	67%
Preparation services from third parties	16,459	13%	4,083	3%	(75)%
Transportation	8,217	6%	1,777	2%	(78)%
Other services and costs	4,586	4%	5,926	5%	29%
Cost of production	*130,411*	*100%*	*116,725*	*100%*	*(10)%*
Cost of resold concentrate	1,289		—		n.a.
Cost of other resold goods	343		99		(71)%
Change in finished goods	(4,096)		(2,533)		(38)%
Cost of revenues	**127,947**		**114,291**		**(11)%**

In the six months ended 30 June 2006 our pro forma cost of revenues decreased by 11% as compared to the same period of 2005. The structure of the pro forma production costs also changed significantly. The decrease in costs and the change in cost composition was primarily a result of the commencement of operations of Raspadskaya Preparation Plant in the fourth quarter 2005. Therefore, during the period under review, the pro forma cost of coal preparation services provided by third parties and the related transportation expense decreased by 75% and 78%, respectively, while the pro forma payroll costs, electricity, materials and certain other costs increased after Raspadskaya Preparation Plant started its operations.

Pro forma depreciation, amortisation and depletion

Our pro forma depreciation, amortisation and depletion are the major components of the cost of production.

The table below sets forth our pro forma depreciation, amortisation and depletion in production costs for the six months ended 30 June 2005 and 2006:

	Six months 30 June		
	2005	2006	Change, %
	(in thousands of US dollars)		
Depreciation and amortisation	23,665	23,272	(2)%
Depletion	20,628	20,407	(1)%
Total	**44,293**	**43,679**	**(1)%**

The pro forma depletion charges remained relatively stable during the six months ended 30 June 2005 and 2006. The slight decrease of depreciation and amortisation in the six months ended 30 June 2006 as compared to the similar period of the previous year was mostly a result of the temporarily reduction of the operations of one section at the Raspadskaya mine as a result of a fire in June 2005.

Pro forma payroll and payroll tax

The table below sets forth our pro forma payroll and payroll taxes as included in cost of revenues and in general and administrative expenses for the six months ended 30 June 2005 and 2006:

	Six months ended 30 June		
	2005	2006	% change to
Average total number of employees	6,724	7,148	6%
Total net payroll (in thousands of US dollars)	27,074	32,964	22%
Total payroll taxes (in thousands of US dollars)	8,213	8,688	6%
Average annual payroll per employee, net (in US dollars)	8,053	9,223	15%
Effective payroll tax rate, %	30%	26%	(13)%

The higher pro forma payroll costs during the six months ended 30 June 2006 in comparison with the six months ended 30 June 2005 were driven by two factors: the increasing average number of employees and the growing average salary per employee. The pro forma increase of the headcount of 6% was primarily a result of the commencement of Raspadskaya Preparation Plant operations and expansion of MUK-96 activities.

The decrease of the effective payroll tax rate from 30% to 26% was due to the effect of the UST descending tax scale resulting from the increased average payroll of employees and decrease of the rates of other payroll taxes in 2006.

Pro forma preparation services and transportation

The pro forma cost of coal preparation services by the third party preparation plants and the cost of related coal transportation decreased significantly during the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. This cost reduction represented the effect of the commencement of production operations by Raspadskaya Preparation Plant in the fourth quarter 2005. In the six months ended 30 June 2005, all of our coal concentrate was produced by third party plants while in the six months ended 30 June 2006 only 19% of coal preparation was outsourced. Pro forma cost of coal concentrate production at Raspadskaya Preparation Plant is lower than the cost of preparation services provided by third parties which allowed us to benefit from a significant cost reduction in the six months ended 30 June 2006.

Additionally, we reduced our coal transportation expenses by 78% in the six months ended 30 June 2006 as compared to the six months ended 30 June 2005 as the Raspadskaya Preparation Plant is located in the close proximity to our coal production facilities.

Pro forma mineral resources tax and other taxes in production costs

Pro forma taxes primarily relate to the charges paid for the mineral resources use. The reduction of the mineral resources tax expense in the six months ended 30 June 2006 was a result of the decrease in coal prices which effect the calculation of the taxable base.

Pro forma materials, electricity and other costs

Pro forma materials accounted for 14% and 16% of our pro forma production costs during the six months ended 30 June 2005 and 2006, respectively. Pro forma materials costs increased by 4% during the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. The pro forma materials cost growth was mainly attributable to the increased coal production and commencement of Raspadskaya Preparation Plant operations.

The pro forma electricity costs represent fees charged by the third party electricity suppliers. The increase of the electricity costs was mostly due to the start up of internal coal preparation operations by Raspadskaya Preparation Plant.

The significant portion of other pro forma services and costs relate to the overburden removal works and related transportation costs incurred by Razrez Raspadsky.

Pro forma gross profit

The pro forma gross profit margin decreased from 59% of revenues in the six months ended 30 June 2005 to 48% of revenues in the six months ended 30 June 2006. The negative trend was a result of the unfavourable raw coal and coal concentrate market prices in the six months ended 30 June 2006. The adverse effect of the decrease in revenue on our gross margin in the six months ended 30 June 2006 was partially mitigated by the cost reduction resulted from the increase of preparation of our raw coal by Raspadskaya Preparation Plant.

Pro forma expenses

Pro forma selling and distribution costs

The pro forma selling and distribution costs represent railway tariffs recharged to customers and customs duties on export sales. The increase of the selling expenses resulted from the railway tariffs increase as well as from higher amount of transportation expenses which we paid and recharged to customers due to higher share of FCA and DAF contracts.

Pro forma general and administrative expenses

The table below sets forth our pro forma general and administrative expenses for the six months ended 30 June 2005 and 2006:

	Six months ended 30 June				
	2005	**% of total**	**2006**	**% of total**	**% change to 2005**
	(in thousands of US dollars, except percentages)				
Payroll	7,066	50%	8,724	46%	23%
Taxes	2,937	21%	3,139	17%	7%
Payroll tax	1,666	12%	2,020	11%	21%
Materials	380	3%	384	2%	1%
Insurance	190	1%	305	2%	61%
Depreciation	215	2%	300	2%	40%
Other services and costs	1,729	12%	3,907	21%	126%
Total	**14,183**	**100%**	**18,779**	**100%**	**32%**

Our pro forma general and administrative expenses increased mainly as a result of higher average employees' salaries and the increased headcount of our management company, Raspadskaya Coal Company, required in order to enhance our management function. For the details of the payroll costs and related taxes please refer to "—Overview of the Reviewed Unaudited Pro Forma Results of Operations for the Six Months Ended 30 June 2005 and 2006—Pro forma cost of revenues—payroll and payroll tax."

Pro forma taxes mainly represent property tax which increased as a result the addition of the property of Raspadskaya Preparation Plant in the six months ended 30 June 2006.

Pro forma social and social infrastructure maintenance expenses

Pro forma social and social infrastructure maintenance expenses amounted to $4.2 million and $2.9 million in the six months ended 30 June 2005 and 2006, respectively. As our pro forma profits decreased during the six months ended 30 June 2006, we reduced the amount of our donations to the social infrastructure during the period under review due to the unfavourable price fluctuations.

Pro forma other operating expenses, net

The pro forma high net operating expenses in the six months ended 30 June 2005 were mostly associated with the commencement of works related to the liquidation of damages caused by the fire at the Raspadskaya mine in June 2005.

Pro forma profit from operating activities

The pro forma profit from operating activity decreased from $158.8 million in the six months ended 30 June 2005 to $75.8 million in the six months ended 30 June 2006. The pro forma operating profit margin comprised 51% and 35% for the six months ended 30 June 2005 and 2006, respectively. The higher operating profit recorded in the six months ended 30 June 2005 was a result of the favourable market trends and increased coal and concentrate prices. Further decrease of the sales prices in the first six months ended 30 June 2006 was the major factor leading to the reduction of the operating profit during this period.

Pro forma interest income

The pro forma interest income amounted to $2.2 million and $0.5 million for the six months ended 30 June 2005 and 2006, respectively. The higher interest income in the first half of 2005 was associated with the income received by Raspadsky Ugol and OAO "Raspadskaya" in relation to short-term bank deposits. The lower amount of funds held on deposits in the six months ended 30 June 2006 resulted in the reduction of the interest income earned over the period.

Pro forma interest expense

The pro forma interest expense increased from $4.8 million in the six months ended 30 June 2005 to $5.3 million in the six months ended 30 June 2006 resulting from the higher volumes of external financing obtained by OAO "Raspadskaya".

Pro forma profit before income taxes

Our pro forma profit before income taxes decreased in the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. The decrease amounted to 54% and was attributable to the changes in the market conditions and lower sales prices available in the six months ended 30 June 2006.

Pro forma income tax expense

The pro forma income tax expense amounted to $39.8 million in the six months ended 30 June 2005 and $20.1 million in the six months ended 30 June 2006. The decrease of the pro forma income tax expense was due to the lower taxable profits received in the six months ended 30 June 2006. The effective income tax rate amounted to 25% and 28% for the six months ended 30 June 2005 and 2006, respectively.

Pro forma profit after tax

Our pro forma net profit after tax decreased by 56% in the six months ended 30 June 2006 as compared to the six months ended 30 June and amounted to $50.9 million. The decrease was primarily associated with the lower sales prices for coal and concentrate prevailing in the market in the six months ended 30 June 2006.

Pro forma EBITDA

The table below sets forth our pro forma EBITDA[(1)] calculation for the six months ended 30 June 2005 and 2006:

	Six months 30 June	
	2005	**2006**
	(in thousands of US dollars)	
Net profit	**116,313**	**50,945**
Adjusted for:		
Depreciation and amortisation[(2)]	23,968	24,006
Depletion	20,628	20,407
Interest income	(2,158)	(544)
Interest expense	4,843	5,291
Income tax expense	39,760	20,131
EBITDA	**203,354**	**120,236**
EBITDA, % of revenue	*65%*	*55%*

(1) Pro forma EBITDA represents net pro forma profit before interest income (expense), dividend income, income taxes and depreciation, amortisation and depletion. We present pro forma 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. Pro forma 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 pro forma and historical IFRS operating results and are using pro forma EBITDA only as a supplement. Pro forma EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Pro forma EBITDA is not a 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 or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, pro forma EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) The depreciation and amortisation in the six months ended 30 June 2005 include charges relating to cost of sales, general and administrative expenses and other gains and losses amounting to $23.7 million, $0.2 million and $0.1 million, respectively. The depreciation and amortisation in the six months ended 30 June 2006 include charges relating to cost of sales, general and administrative expenses and other gains and losses amounting to $23.3 million, $0.3 million and $0.4 million, respectively.

IFRS Historical Results of Operations

Our IFRS historical audited income statements present the financial results and results of operations of OAO "Raspadskaya" (ZAO "Raspadskaya" prior to 1 March 2006) and its subsidiaries. Financial results and results of operations of MUK-96 and Razrez Raspadsky are not included in our historical audited income statements before 31 May 2006 and included from 1 June 2006. Historically, OAO "Raspadskaya" had significant trading and production operations with MUK-96 and Razrez Raspadsky. On 14 September 2006, we acquired the 100% equity interest in MUK-96 and its 99% owned subsidiary Razrez Raspadsky. See "—The Reorganisation" above for further details.

We believe that our pro forma consolidated financial information form the most relevant basis for the analysis of our results of operations. Our pro forma consolidated financial information presents the view of our business taken as a whole while our historical consolidated financial statements 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.

Overview of the IFRS Historical Audited Results of Operations for the Years ended 31 December 2003, 2004 and 2005

The table below sets forth our IFRS historical income statement for the years ended 31 December 2003, 2004 and 2005:

	Year ended 31 December				
	2003	2004	Change, %	2005	Change, %
	(in thousands of US dollars, except percentages)				
Revenue	131,443	391,649	198%	548,891	40%
Cost of revenues	(101,428)	(214,658)	112%	(315,422)	47%
Gross profit	**30,015**	**176,991**	**490%**	**233,469**	**32%**
Gross profit margin	**23%**	**45%**		**43%**	
Selling and distribution costs	(6,315)	(5,476)	(13)%	(5,255)	(4)%
General and administrative expenses	(14,602)	(16,986)	16%	(25,587)	51%
Social and social infrastructure maintenance expenses	(1,963)	(3,956)	102%	(7,118)	80%
Gain (loss) on disposal of property, plant and equipment	(202)	133	(166)%	(1,188)	(993)%
Foreign exchange gain (loss), net	(348)	(92)	(74)%	113	(223)%
Other operating expenses, net	(2,090)	(811)	(61)%	(9,639)	n.a.
Profit from operating activities	**4,495**	**149,803**	**3233%**	**184,795**	**23%**
Profit from operating activities margin	**3%**	**38%**		**34%**	
Dividend income	—	—	n.a.	93	n.a.
Interest income	773	2,297	197%	3,294	43%
Interest expense	(1,167)	(4,715)	304%	(5,665)	20%
Profit before income taxes	**4,101**	**147,385**	**3494%**	**182,517**	**24%**
Income tax expense	(2,018)	(39,241)	1845%	(49,909)	27%
Profit after tax from continuing operations	**2,083**	**108,144**	**5092%**	**132,608**	**23%**
Gain (loss) after tax from discontinued operations	237	(1,886)	-896%	—	(100)%
Net profit	**2,320**	**106,258**	**4480%**	**132,608**	**25%**
Net profit margin	**2%**	**27%**		**24%**	

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenue

Revenue for the year ended 31 December 2005 increased by $157.2 million, or 40%, to $548.9 million from $391.6 million for the year ended 31 December 2004 primarily due to the increased volumes of RFPK and Razrez Raspadsky coal products resold by Raspadsky Ugol since April 2004. Prior to April 2004, RFPK and Razrez Raspadsky sold their coal products directly to customers. Approximately 97% of our revenue in 2005 was derived from the sale of raw coal and coal concentrate. The share of export revenue in raw coal and coal concentrate sales decreased and comprised 26% and 21% in 2004 and 2005, respectively.

Revenue shown in the IFRS historical income statement for the year ended 31 December 2004 is $29.1 million lower than that shown in the pro forma income statement for the same period due to certain raw coal and coal concentrate sales having been made directly by RFPK and Razrez Raspadsky. In 2005, RFPK and Razrez Raspadsky sold all of their coal products through Raspadsky Ugol. Revenue shown in the IFRS historical income statement for the year ended 31 December 2005 is $7.6 million higher than as shown in the pro forma income statement for the same period due to the elimination of certain revenues received by OAO "Raspadskaya" and its subsidiaries from MUK-96 and Razrez Raspadsky.

Cost of revenues

Cost of revenues is primarily comprised of payroll of production personnel and related taxes, materials, depreciation and depletion and other services related to our coal mining. The cost of revenue for the year ended 31 December 2005 increased by $100.8 million, or 47%, to $315.4 million from $214.7 million for the year ended 31 December 2004. The increase was primarily attributable to the mining and preparation services performed by Razrez Raspadsky which increased production of raw coal from 1.5 million tonnes in 2004 to 2.2 million tonnes in 2005. The mining and preparation services from Razrez Raspadsky accounted for 35% and 23%, of total cost of revenue for the years ended 31 December 2005 and 2004, respectively. The increase of mining and preparation services of approximately 126% from 31 December 2004 to 31 December 2005 was due to a 50% increase in the volume produced by and prepared through Razrez Raspadsky and the higher prices charged by Razrez Raspadsky for mining and preparation services. The coal concentrate prepared through Razrez Raspadsky was purchased back by our trading company Raspadsky Ugol at the price close to the prevailing market price at that moment. The increase of payroll and related taxes for the year ended 31 December 2005 to approximately $40.1 million from $32.1 million for the year ended 31 December 2004 was a result of an increase in the monthly salary of employees which reflected labour cost inflation.

Cost of revenues as shown in our IFRS historical income statement is $3.9 million and $63.5 million higher for the years ended 31 December 2004 and 2005, respectively, than in the pro forma income statements for those periods. This is due to the eliminating of sales of coal concentrate by RFPK to Raspadsky Ugol and preparation and mining services by Razrez Raspadsky in the pro forma income statement for those periods. In 2004, Razrez Raspadsky and RFPK sold a part of their coal products directly to customers while in 2005, all of their coal products were sold through Raspadsky Ugol. The amount of the purchases from these companies therefore increased resulting in a higher difference between cost of revenues as shown in our IFRS historical income statement and cost of revenues as shown in our pro forma income statement for the year ended 31 December 2005 as compared to the year ended 31 December 2004.

Selling and distribution costs

Selling and distribution costs consist of costs associated with the transportation of coal and customs fees related to export sales. Selling and distribution costs for the year ended 31 December 2005 decreased by $0.2 million, or 4%, to $5.3 million from $5.5 million for the year ended 31 December 2004. The decrease was insignificant and primarily resulted from a decline in export sales.

General and administrative expenses

General and administrative expenses primarily include payroll, pension costs and related taxes of management, administrative and finance personnel, property tax, land tax, transportation tax, land lease payments and pollution taxes. General and administrative costs for the year ended 31 December 2005 increased by $8.6 million, or 51%, to $25.6 million from $17.0 million for the year ended 31 December 2004. The increase was primarily the result of the commencement of the Raspadskaya Preparation Plant operations 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.

Social and social infrastructure maintenance expenses

Social and infrastructure maintenance expenses normally comprise voluntary and discretionary charity and donations to social sphere objects and non-profit organisations, social development funds and assistance to the administration. Social and infrastructure costs for the year ended 31 December 2005 increased by $3.1 million, or 80%, to $7.1 million from $4.0 million for the year ended 31 December 2004.

Other operating income/(expenses), net

Other operating income and expenses primarily consist of revenues and costs associated with non-core aspects of our business such as rent and canteen maintenance and various non-recurring expenses. Other operating income and expenses for the year ended 31 December 2005 increased by $8.8 million to $9.6 million from $0.8 million for the year ended 31 December 2004. The increase was primarily due to non-recurring mine repair costs which we incurred in connection with the fire that occurred at the Raspadskaya mine in June 2005. Such total costs amounted to $7.6 million in 2005. For further information on the fire that occurred at the Raspadskaya mine, see "Our Company—Health, Safety and Environment."

Interest income

Interest income for the year ended 31 December 2005 increased by $1.0 million, or 43%, to $3.3 million from $2.3 million for the year ended 31 December 2004. The increase was due to the higher interest received on our short-term deposits with Russian banks.

Interest expense

Interest expense for the year ended 31 December 2005 increased by $1.0 million, or 20%, to $5.7 million from $4.7 million for the year ended 31 December 2004. The primary portion of our interest expense related to loans obtained by Raspadskaya Preparation Plant during its operational development stage.

Income tax expense

Income tax expense for the year ended 31 December 2005 increased by $10.7 million, or 27%, to $49.9 million from $39.2 million for the year ended 31 December 2004. The increase was primarily the result of similar increase in the profits before taxes. The effective income tax rate for the years ended 31 December 2005 and 2004 was 27% and 27%, respectively.

Net profit

Net profit for the year ended 31 December 2005 increased by $26.3 million, or 25%, to $132.6 million from $106.3 million for the year ended 31 December 2004. The increase in net profit was primarily attributable to higher revenue growth rate in comparison with costs increase rate.

Year ended 31 December 2004 compared to year ended 31 December 2003

Revenue

Revenue from raw coal and coal concentrate for the year ended 31 December 2004 increased by $252.9 million, or 201%, to $378.9 million from $126.0 million for the year ended 31 December 2003 due to several factors. First, prior to the establishment of Raspadsky Ugol in April 2004, our sales were through RFPK, our affiliated company. The establishment of Raspadsky Ugol operations enabled us to make sales directly to our customers. Moreover the prices for our coal products on the Russian market were higher in the year ended 31 December 2004 than in the year ended 31 December 2003. Our production increased by approximately 1 million tonnes of coal production in the year ended 31 December 2004 as compared to our coal production in the year ended 31 December 2003.

Cost of revenues

The cost of revenue for the year ended 31 December 2004 increased by $113.2 million, or 112%, to $214.7 million from $101.4 million for the year ended 31 December 2003. The increase was primarily attributable to the greater volume of coal products produced by Razrez Raspadsky (1.5 million tonnes in 2004 as compared to 152,800 tonnes in 2003).

Selling and distribution costs

Selling and distribution costs for the year ended 31 December 2004 decreased by $0.8 million, or 13%, to $5.5 million from $6.3 million for the year ended 31 December 2003. The decrease was primarily the result of the change in our selling and distribution cost structure. In 2004, when the trading house Raspadsky Ugol commenced operations, we began to record costs associated with raw coal and coal concentrate deliveries to the Mezhdurechensk railway station as internal transportation, and thus, included such costs in costs of goods sold.

General and administrative expenses

General and administrative costs for the year ended 31 December 2004 increased by $2.4 million, or 16%, to $17.0 million from $14.6 million for the year ended 31 December 2003. The increase was primarily the result of higher payroll and related tax expenses resulting from the inclusion of Raspadsky Ugol in our corporate structure as a wholly-owned subsidiary of the Selling Shareholder, as well as from the increase of average monthly salaries of our employees.

Social and social infrastructure maintenance expenses

Social and infrastructure costs for the year ended 31 December 2004 increased by $2.0 million, or 102%, to $4.0 million from $2.0 million for the year ended 31 December 2003. As our profits increased in the year ended 31 December 2004, we increased donations to social infrastructure during that period in comparision with the year ended 31 December 2003.

Interest income

Interest income for the year ended 31 December 2004 increased by $1.5 million, or 197%, to $2.3 million from $0.8 million for the year ended 31 December 2003. The increase was due to our wider usage of bank deposit facilities in our day-day cash management.

Interest expense

Interest expense for the year ended 31 December 2004 increased by $3.5 million, or 304%, to $4.7 million from $1.2 million for the year ended 31 December 2003. The increase was primarily a result of loans obtained by Raspadskaya Preparation Plant during its operational development stage.

Income tax expense

Income tax expense for the year ended 31 December 2004 increased by $37.2 million to $39.2 million from $2.0 million for the year ended 31 December 2003. The increase was primarily the result of a similar increase in profit in 2004 as compared to the previous year. The applicable income tax rate for the years ended 31 December 2004 and 2003 was 24% and 24%, respectively.

Net profit

Net profit for the year ended 31 December 2004 increased by $104.0 million to $106.3 million from $2.3 million for the year ended 31 December 2003. The increase in net profit was a result of an increase in revenue due to the establishment of Raspadsky Ugol.

Overview of the IFRS Historical Reviewed Unaudited Results of Operations for the Six Months Ended 30 June 2005 and 2006

The table below sets forth our IFRS historical unaudited income statement for the six months ended 30 June 2005 and 2006:

	Six months ended 30 June		
	2005	2006	change, %
	(in thousands of US dollars, except percentages)		
Income Statement			
Revenue			
Sales of goods	310,544	216,394	(30)%
Rendering of services	2,917	5,224	79%
Cost of revenues	(165,454)	(134,724)	(19)%
Gross profit	**148,007**	**86,894**	**(41)%**
Gross profit margin	**47%**	**39%**	
Selling and distribution costs	(3,534)	(5,915)	67%
General and administrative expenses	(11,382)	(16,558)	45%
Social and social infrastructure maintenance expenses	(4,150)	(2,853)	(31)%
Loss on disposal of property, plant and equipment	(432)	(471)	9%
Foreign exchange gain (loss), net	135	(275)	n.a.
Other operating income (expenses), net	(3,764)	(1,201)	(68)%
Operating profit	**124,880**	**59,621**	**(52)%**
Profit from operating activities margin	**40%**	**27%**	
Interest income	2,158	434	(80)%
Interest expense	(3,038)	(4,221)	39%
Profit before income taxes	**124,000**	**55,834**	**(55)%**
Income tax expense	(31,369)	(16,246)	(48)%
Net profit	**92,631**	**39,588**	**(57)%**
Net profit margin	**30%**	**18%**	

Revenue

Revenue for the six months ended 30 June 2006 decreased by $91.8 million, or 29% as compared to the respective period of the previous year. This was primarily a result of the raw coal and coal concentrate market prices decrease during the first half of 2006, while the raw coal and coal concentrate prices peaked during the first six months ended 30 June 2005. Approximately 95% of our revenues generated during the six months ended 30 June 2006 were derived from the sale of raw coal and coal concentrate. The share of export revenue in raw coal and coal concentrate sales decreased and comprised 18% and 12% in the first half of 2005 and 2006, respectively.

Cost of revenues

The cost of revenues primarily consists of depreciation and amortisation, payroll of production personnel, related payroll taxes, materials, mining services and coal preparation services. The share of these costs in the total cost of production in the six months ended 30 June 2006 constituted 17%, 18%, 5%, 11%, 21% and 15%, respectively. The cost of sales also included the cost of coal concentrate purchased from RFPK. The cost of the purchased coal concentrate amounted to $44.8 million and $28.4 million during the six months ended 30 June 2005 and 2006, respectively. The decrease in the cost of sales was attributable to such factors as reduction of the third party coal preparation fees by 42% due to the commencement of operations of Raspadskaya Preparation Plant; reduction of mining services from Razrez Raspadsky by 31% due to the MUK Group Acquisition and decrease of the cost of purchased concentrate by 36% also due to the MUK Group Acquisition. The effect of the decrease of these costs was partially offset by the additional payroll, materials, depreciation and electricity costs associated with the addition of Raspadskaya Preparation Plant in the fourth quarter of 2005.

Cost of revenues as shown in our IFRS historical income statement was $37.5 million and $20.4 million higher during the six months ended 30 June 2005 and 2006, respectively, as compared to the cost of revenues as shown in our pro forma income statement.

Selling and distribution costs

The selling and distribution costs consist of the concentrate transportation to certain customers and customs fees related to the export sales. Selling and distribution costs increased primarily due to the increase of the railway tariffs and higher share of FCA and DAF contracts.

General and administrative expenses

The general and administrative expenses primarily included payroll and related taxes of management, administrative and finance personnel, property tax, land tax, transportation tax, land lease payments and pollution taxes. The general and administrative costs increased by 45% for the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. This increase was primarily attributable to the commencement of the Raspadskaya Preparation Plant operations and the higher payroll costs.

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.

Social and social infrastructure maintenance expenses

The social and infrastructure maintenance expenses represent voluntary and discretionary donations to social sphere objects and non-for-profit organisations, social development funds and assistance to the administration. As the level of our profits generated in the six months ended 30 June 2006 was lower than in the six months ended 30 June 2005, we donated less to social infrastructure in the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. As a result, our social and social infrastructure maintenance expense decreased by approximately 31%.

Gain (loss) on disposal of property, plant and equipment

Losses from the disposal of property, plant and equipment were relatively stable during the periods presented. In the six months ended 30 June 2006, the losses were generated primarily on the Razrez Raspadsky's minor assets disposals after the acquisition of this entity. The loss from property, plant and equipment disposals during the six months ended 30 June 2005 resulted mostly from TCHU assets sales.

Foreign exchange gain (loss), net

The foreign exchange gains and losses related to the translation of differences arising from the revaluation of assets and liabilities denominated in foreign currencies and the exchange rate differences on the sale and purchase of foreign currencies. An insignificant foreign exchange gain in the amount $0.1 million was generated in the first six months ended 30 June 2005, while during the six months ended 30 June 2006 we incurred an insignificant foreign exchange loss of $0.3 million.

Other operating income/(expenses), net

Other operating income and expenses primarily consist of revenues and costs associated with non-core aspects of our business such as renting out premises and canteen services and various non-recurring expenses. Other operating expenses were higher during the six months ended 30 June 2005 as they included the initial mine repair costs incurred in relation to the liquidation of the damages caused by the fire in the Raspadskaya mine in June 2005. For further information on the matter please refer to "Our Company—Health, Safety and Environment."

Interest income

The interest income amounted to $2.2 million and $0.4 million in the six months ended 30 June 2005 and 2006, respectively, and was primarily associated with the short-term cash deposits held with various banks. The decrease of the amount of funds held on deposit accounts in the six months ended 30 June 2006 caused the interest income reduction during this period.

Interest expense

The interest expense amounted to $3.0 million and $4.2 million in the six months ended 30 June 2005 and 2006, respectively. The interest expense primarily related to loans obtained to finance the start up of Raspadskaya Preparation Plant.

Income tax expense

The income tax expense decreased by 48% from $31.4 million in the six months ended 30 June 2005 to $16.2 million in the six months ended 30 June 2006 which was due to the lower profits received in the latter period. The effective tax rate amounted to 25% and 29% for the six months ended 30 June 2005 and 2006, respectively.

Net profit

Our net profit during the six months ended 30 June 2006 was approximately $53.0 million lower than during the six months ended 30 June 2005. The 57% decrease was due to the less favorable market conditions in the six months ended 30 June 2006 associated with the significant coal domestic and international market prices decrease as compared to the six months ended 30 June 2005.

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 ZAO "Raspadskaya" which only includes part of our current business. If a pro forma cash flow statements were prepared, it would significantly differ from the historical consolidated cash flow statement of ZAO "Raspadskaya".

Analysis of Cash Flows Based On Our Historical Consolidated Financial Statements as of and for the Years Ended 31 December 2003, 2004 and 2005 and Six Months Ended 30 June 2005 and 2006

The table below sets forth our IFRS historical cash flow statement for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(in US dollars thousands)				
Cash and cash equivalents at the beginning of the period	7,071	15,151	48,100	48,100	26,946
Net cash generated from operating activities	39,463	138,734	154,583	68,275	95,433
Net cash used in investing activities	27,754	97,524	92,192	42,123	7,960
Net cash used in financing activities	4,188	10,576	82,134	3,074	54,749
Effect of foreign exchange rate changes on cash and cash equivale	559	2,315	(1,411)	(1,952)	1,841
Cash and cash equivalents at the end of the period	15,151	48,100	26,946	69,226	61,511

Net cash generated from operating activities

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

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	(in US dollars thousands)				
Net profit	**2,320**	**106,258**	**132,608**	**92,631**	**39,588**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation and depletion	43,056	37,806	30,785	16,655	20,803
Deferred income tax benefit	(6,383)	(4,418)	(1,575)	(3,302)	(406)
(Gain)/loss on disposal of property, plant and equipment	202	(133)	1,188	432	471
Interest income	(773)	(2,297)	(3,294)	(2,158)	(434)
Interest expense	1,167	4,715	5,665	3,038	4,221
Other gains and losses	238	1,758	559	452	151
Operating cash flow before changes in working capital and provisions	**39,827**	**143,689**	**165,936**	**107,748**	**64,394**
Changes in working capital:					
Inventories	(4,126)	(1,254)	(6,335)	(8,277)	(6,976)
Trade and other receivables	702	(10,117)	(3,451)	(30,755)	3,034
Receivables from/payables to related parties	1,688	17,197	15,334	21,458	3,295
Taxes recoverable	(6,053)	(17,023)	(16,084)	(19,646)	25,919
Trade and other payables	9,062	(2,038)	(2,045)	(3,985)	8,351
Other	(1,637)	8,280	1,228	1,732	(2,584)
Net cash flow from operating activities	**39,463**	**138,734**	**154,583**	**68,275**	**95,433**

The major cash flow drivers over the analysed periods were as follows:

Year ended 31 December 2004 compared to year ended 31 December 2003

The expansion of our operations and an increase in coking coal prices during 2004 resulted in the increase of $103.9 million with respect to net profit in the year ended 31 December 2004 as compared to the year ended 31 December 2003.

Year ended 31 December 2005 compared to year ended 31 December 2004

The continuing growth of coking coal prices on the domestic market resulted in the $26.3 million increase in net profit in the year ended 31 December 2005 as compared to the year ended 31 December 2004.

Six months ended 30 June 2006 compared to six months ended 30 June 2005

The significant decrease of the raw coal and coal concentrate prices both on the domestic and export markets resulted in $53.0 million decrease in the net profit during the six months ended 30 June 2006 as compared to the six months ended 30 June 2005.

The decrease of the prices for coal products during the six months ended 30 June 2006 resulted in the lower revenue turnover and respective decrease of the level of customers debts in comparison with the respective period of the prior year.

Offset of input VAT related to completed construction projects and favourable changes in the VAT legislation allowed us to improve our operating cash flow.

Net cash flows used in investing activities

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

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(in US dollars thousands)				
Purchases of property, plant and equipment	(26,936)	(91,631)	(104,732)	(44,521)	(39,777)
Cash acquired through acquisition of subsidiaries	—	—	—	—	31,947
Other investing activities, net	(818)	(5,893)	12,540	2,398	(130)
Net cash flow from investing activities	**(27,754)**	**(97,524)**	**(92,192)**	**(42,123)**	**(7,960)**

Net cash used in investing activities primarily included purchases of property, plant and equipment. The major portion of funds disbursed related to the equipment for Raspadskaya Preparation Plant.

Net cash used in investing activities during the six months ended 30 June 2006 was significantly lower than during the six months ended 30 June 2005 due to $31.9 million of cash accumulated by MUK-96 and Razrez Raspadsky which we acquired through MUK Group Acquisition.

Net cash used in financing activities

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

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(in US dollars thousands)				
Purchases of treasury shares	—	(5,579)	(1,048)	(224)	(1,207)
Proceeds from sale of purchased treasury shares	—	—	—	—	20,429
Proceeds from loans and promissory notes	10,753	48,247	52,529	34,239	286
Repayment loans and promissory notes, including interest	(15,998)	(47,665)	(36,459)	(3,545)	(27,968)
Dividends paid	—	—	(97,156)	(33,544)	(46,275)
Other financing activities, net	1,057	(5,579)	—	—	(14)
Net cash flow from financing activities	**(4,188)**	**(10,576)**	**(82,134)**	**(3,074)**	**(54,749)**

Year ended 31 December 2004 compared to year ended 31 December 2003

Net cash used in financing activities increased from $4.2 million during the year ended 31 December 2003 to $10.6 million during the year ended 31 December 2004. The increase of the net cash used in financing activities was primarily a result of the purchases of treasury shares from minority shareholders.

Year ended 31 December 2005 compared to year ended 31 December 2004

Net cash used in financing activities increased from $10.6 million during the year ended 31 December 2004 to $82.1 million during the year ended 31 December 2005 which was mainly due to $97.2 million dividends paid to our shareholders in the year ended 31 December 2005. No dividends were paid in the year ended 31 December 2004.

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Net cash used in financing activities was $51.7 million higher during the six months ended 30 June 2006 in comparison with the six months ended 30 June 2005. This was primarily a result of the fact that no additional borrowings were obtained in the six months ended 30 June 2006 while the proceeds from such borrowings amounted to $34.2 million in the six months ended 30 June 2005. Additionally, the amount of loans and promissory notes repaid was significantly higher during the six months ended 30 June 2006 and amounted to $28.0 million as compared to $3.5 million repaid in the six months ended 30 June 2005.

Capital Expenditures

The following table sets forth capital expenditures of OAO "Raspadskaya," MUK-96 and Razrez Raspadsky for the years ended 31 December 2004 and 2005 and the six months ended 30 June 2006:

	Year ended 31 December		Six months ended
	2004	2005	30 June 2006
	(in US dollars thousands)		
OAO (ZAO) "Raspadskaya"	91,582	91,928	32,549
MUK-96	2,370	6,006	3,925
Razrez Raspadsky	53,144	11,750	10,051
Total capital expenditures	**147,096**	**109,684**	**46,525**.

Our capital expenditure plan for the year ended 31 December 2006 provides for approximately $110.0 million of capital expenditures to be incurred. As of 30 June 2006, we have spent approximately $46.5 million or 42% of the 2006 annual capital expenditures plan. The reduction of the capital expenditures in the year ended 31 December 2005 and the six months ended 30 June 2006 was primarily due to the completeness of the Raspadskaya Preparation Plant construction. Our capital expenditures to be incurred in accordance with our capital expenditure plan for the years 2007 to 2010 are estimated to be approximately $323.8 million which we intend to spend for the upgrade and expansion of the Raspadskaya mine, MUK-96, Razrez Raspadsky and Raspadskaya Preparation Plant, as well as the construction of Raspadskaya Koksovaya.

Indebtedness and contractual obligations

The following table sets forth our indebtedness as of 30 June 2006:

	Payments Due By Period				
	Less than 1 year	1-2 years	3-5 years	More than 5 years	Total
	(in US dollars thousands)				
Long-term debt	—	9,776	7,976	—	17,752
Short-term debt	50,586	—	—	—	50,586
Capital lease obligations	972	470	—	—	1,442
Operating lease obligations	477	—	—	—	477
Total	**52,035**	**10,246**	**7,976**	**—**	**70,257**

In July 2006, we entered into a $300.0 million loan agreement with Natexis Banques Populaires and Bank Natexis (ZAO). This short-term loan agreement bears an interest rate of LIBOR + 0.85% per annum and is payable by 30 June 2007. We used this loan agreement to pay for the bulk of our $307.4 million debt to the Selling Shareholder for the transfer of the ownership interests in the Acquired Companies. The loan agreement is guaranteed by Evraz. We intend to refinance this loan agreement on a long-term basis with a financial institution.

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, 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, our commercial and financial operations and commodity prices.

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, Hungarian and Romanian markets 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. See "Risk Factors—Risks Related to our Business—Our business and results of operations are dependent on coal markets which may be cyclical in nature."

Foreign currency exchange rate risk

Our principal customers operate in the domestic market and, therefore, most of the sales are priced in roubles. Most of our costs are also incurred in roubles. 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. The major portion of our debt is short-term. The risk exists 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.

Critical Accounting Policies and Estimates

The preparation of our financial information requires management to make judgments concerning the election of accounting methods, estimates and assumptions that are sensitive to changes in market conditions or other uncertainties that could affect our reported results. The following are what we consider to be our critical accounting policies and the judgments used to develop our reported results. For a summary of all our significant accounting policies, including the critical accounting policies discussed below, see Note 2 to our audited historical consolidated financial information included elsewhere in this offering memorandum.

Impairment of property, plant and equipment

We assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, we estimate the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment losses were recognised or reversed in the years ended 31 December 2005, 2004 and 2003.

Useful lives of items of property, plant and equipment

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." In 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $0.5 million.

Site restoration provisions

We review expected restoration costs of mining sites at each balance sheet date. As a result, our management concluded that as of 31 December 2005, 2004 and 2003 no liabilities existed in respect of restoration of mining sites other than such contingent liabilities disclosed in Note 17 to the audited consolidated financial statements included elsewhere in this offering memorandum.

Fair values of assets and liabilities acquired in business combinations

We are required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions.

Post-employment benefits

We use actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.).

Allowances

We make allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Deferred income tax assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance.

New Accounting Standards

In preparing the consolidated financial information we have not applied the following IFRS and IFRIC Interpretations that have been issued but not yet effective:

IAS 19 (amended 2004) “Employee Benefits”;

IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”;

IFRS 7 “Financial Instruments: Disclosures”; and

IFRIC 4 “Determining whether an Arrangement contains a Lease”.

We expect that the adoption of the pronouncements listed above will have no significant impact on our results of operations, cash flow and financial position in the period of initial application.