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

The following is a discussion and analysis of our interim consolidated financial information for the six months ended 30 June 2008. 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.

Summary of results

The table below sets out our summary of results for the six months ended 30 June:

	2008	2007	% change
Revenue, *millions of US$*	607	339	79%
Cost of sales, *millions of US$*	(190)	(165)	15%
EBITDA, *millions of US$*	434	200	117%
EBITDA margin, *percentages*	72%	59%	
Net profit, *millions of US$*	262	92	186%
Net profit margin, *percentages*	43%	27%	
Earnings per share, *US$*	0.33	0.12	188%
Raw coal production, *millions of tonnes*	5.1	6.6	(23)%
Coal concentrate produced, *millions of tonnes*	4.0	4.3	(7)%
Output ratio of concentrate, *percentages*	78%	74%	
Cash flow from operating activities, *millions of US$*	351	117	199%
Capital expenditures, *millions of US$*	151	64	137%

Overview

We are a group of integrated companies based in the Kuzbass region: three mines in operation, one mine under construction, a preparation plant, a trading company and companies for transportation and infrastructure development – hereafter referred to collectively as “the Group”. We have leading market positions in Russia with respect to coking coals of the GZh (gas fat) and GZhO (gas fat semi-lean) categories. According to IMC Economic and Energy Consultants Limited (IMC), as of 30 June 2006, we had total measured and indicated resources of approximately 1,461 million tonnes, and proved and probable reserves of approximately 781.5 million tonnes, of which 24.1 million tonnes were extracted in the period from 1 July 2006 to 30 June 2008. Those resources and reserves were estimated in accordance with the requirements of the JORC Code. Our reserves will be available for extraction over next 50 years at least. In addition, in November 2006 we acquired a license for an area with indicated resources of approximately 120 million tonnes.

Subsidiaries

The table below sets out our ownership share in key subsidiaries as of 30 June:

Subsidiary	Business activity	Ownership interest, % 2008	2007
OAO MUK-96	Coal mining	100.00%	100.00%
ZAO Razrez Raspadsky	Coal mining	100.00%	100.00%
ZAO Raspadskaya-Koksovaya	Coal mine under construction	100.00%	100.00%
ZAO Raspadskaya Preparation Plant	Coal processing	100.00%	100.00%
OOO Raspadskiy Ugol	Coal trading	100.00%	100.00%
ZAO Raspadskaya Coal Company	Managing	100.00%	100.00%
OAO OShPU	Mining construction	100.00%	95.12%
OAO TPTU	Transportation	58.59%	58.59%

Key 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, amongst others, the demand and supply of coking coal, coking coal prices, production costs, railway transportation costs, exchange rates and maintenance costs.

Demand and supply of coking coal

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

The major part of our coal products is sold to domestic steel and coke producers such as Magnitogorsk Iron and Steel Plant (”MMK”), Evraz Group (“Evraz”), Novolipetsk Iron and Steel Plant (”NLMK”). The share of sales to these plants accounted for approximately 56 per cent and 48 per cent of our total coal concentrate and raw coal sales volume for the six months ended 30 June 2008 and 2007, respectively. The proportion of our production exported decreased in the six months ended 30 June 2008 as compared to the six months ended 30 June 2007 (27 per cent and 31 per cent respectively).

Our results are indirectly affected by changes in the coal production capacities of our competitors and by the demand for different types of coking coal. Nonetheless, we believe that there will be no significant increase of Russian metallurgical coal capacity in the short- to medium-term.

We intend to focus upon maintaining the high quality of our products, the stability of our relations with large metallurgical and coke plants, the use of long-term contracts with significant delivery volumes up to 2011, the continuing diversification of our sales and the use of our own coal preparation facilities.

Coking coal prices

Both domestic and world prices for coking coal have a material impact on our results. The major driving forces of changes in coking coal prices in the six months ended 30 June were the strong market for metallurgical products, the high demand for coking coal on the domestic market, the decrease in coking coal extraction as a result of accidents in Russia, Ukraine and Kazakhstan, and the absence of new coking coal extraction in Russia.

The table below represents the movement in our coal prices for the six months ended 30 June:

	2008	2007	% change
	(US$ per tonne, except percentages, FCA)		
Coal concentrate—average domestic price	144.4	68.0	112%
Coal concentrate—average export price	132.4	59.5	123%
Average sales price of coal concentrate	**141.0**	**64.9**	**117%**
Raw coal—average domestic price	80.7	35.0	131%
Average sales price of raw coal	**80.7**	**35.0**	**131%**

Domestic prices for our coal concentrate (on FCA terms less railway tariff) were higher than actual export prices.

At present, we do not hedge our exposure to the risk of fluctuations in the price of coal. Our long-term coal sales contracts fix the sales price for major customers. If market prices change the contract prices may be changed with the mutual agreement of buyer and seller.

Because of changes in supply and demand on the regional coking coal markets we were able to negotiate with our major customers an increase of our sales prices for coal concentrate to 5,500 roubles per tonne for the second half of 2008. However, as the result of an investigation into coking coal prices by the Federal Antimonopoly Service of the Russian Federation ("FAS") and subsequent negotiations we have offered to reduce our sales price to 5,300 roubles per tonne starting from 1 September 2008.

Production volumes

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

The table below sets out our coal production for the six months ended 30 June:

	2008	2007	% change
	(thousands of tonnes, except percentages)		
Raw coal production	5,081	6,609	(23)%
Raw coal prepared	5,181	5,839	(11)%
Coal concentrate production	4,034	4,338	(7)%

Production volumes decreased by 23 per cent in the six months ended 30 June 2008 as compared to the six months ended 30 June 2007. The main causes for the decrease were extensive work on the planned re-positioning of mechanised mining equipment and associated tunnelling work to prepare new faces, and also the unplanned failure of a supplier to deliver equipment on time. We expect to achieve planned production volumes for the second half of 2008.

The decrease in the production of coal concentrate was limited to 7 per cent by drawing upon inventories of raw coal and by an increase in the output ratio of coal concentrate from 74 per cent in the first half of 2007 to 78 per cent in the first half of 2008.

Sales volumes

The table below sets out the volumes of our coal concentrate and raw coal sales on the domestic and export markets for the six months ended 30 June:

	2008	2007	% change
	(thousands of tonnes, except percentages)		
Domestic sales of coal concentrate	2,888	2,730	6%
Export sales of coal concentrate	1,159	1,560	(26)%
Total sales of coal concentrate	**4,047**	**4,290**	**(6)%**
Domestic sales of raw coal	243	811	(70)%
Total sales of raw coal	**243**	**811**	**(70)%**
Total sales of coal concentrate and raw coal [1]	**4,237**	**4,890**	**(13)%**

(1) Raw coal restated in tonnes of coal concentrate at output ratio of approximately 78 and 74 per cent for the six months ended 30 June 2008 and 2007, respectively

The decrease of 70 per cent in volume of sales of raw coal is a result of our strategy of maximising the sale of coal concentrate which has a higher profit margin.

Mainly ecause of the existence of long-term domestic sales contracts it was necessary to reduce the volume of coal concentrate exports by 26 per cent.

The table below sets out the volumes of our coal concentrate and raw coal sales by location of our customers for the six months ended 30 June:

	2008	2007	% change
	(thousands of tonnes, except percentages)		
Sales of coal concentrate			
Russia			
MMK	1,017	1,120	(9)%
NLMK	761	730	4%
Evraz	615	613	0%
Kemerovo Koks	295	68	334%
Other	200	199	1%
Total Russia	**2,888**	**2,730**	**6%**
Export			
Ukraine	947	871	9%
Eastern Europe	212	577	(63)%
Asia	–	112	(100)%
Total Export	**1,159**	**1,560**	**(26)%**
Total sales of coal concentrate	**4,047**	**4,290**	**(6)%**
Sales of raw coal			
Russia	243	811	(70)%
Total sales of raw coal	**243**	**811**	**(70)%**

Ukraine is our main export market; its share of export sales was 82 per cent and 56 per cent in the six months ended 30 June 2008 and 2007, respectively. In Ukraine we obtained four new customers: three coke plants belonging to Evraz (20 per cent of our export sales) and one metallurgical plant (‘ArcelorMittal Krivoy Rog’, 16 per cent of our export sales).

Production costs and efficiency

Our competitiveness and long-term profitability are, to a significant degree, dependent upon our ability to maintain relatively low costs and high efficiency of our operations.

The table below sets out the total cash cost of production for the six months ended 30 June:

	2008	2007	% change
	(US$000, except percentages)		
Cost of sales	**189,695**	**164,688**	**15%**
Less:			
Railway tariff	(11,222)	(21,559)	(48)%
Cost of other resold goods	(2,534)	(742)	242%
Change in finished goods	(6,842)	2,478	(376)%
Depreciation, depletion and amortization	(64,576)	(61,959)	4%
Total cash cost of production(1)	**104,521**	**82,906**	**26%**
Including:			
Total cash cost of raw coal production	93,935	70,559	33%
Total cash cost of preparation	10,586	12,347	(14)%
	(US$ per tonne)		
Total cash cost per tonne of raw coal produced	**18.5**	**10.7**	**73%**

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

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.

In the six months ended 30 June 2008, the total cash cost of raw coal production increased by 33 per cent as compared to the six months ended 30 June 2007 and reached US$93.9 million.

The increase was mainly due to the increase in the costs of tunnelling work by 12 per cent in line with our mining development plan; to the increase in the volume of overburden removal by 17 per cent as a consequence of changes in preparation technology in the Glukhovsky mining area; and to the increase of the overhaul costs relating to mining equipment by more than 90 per cent as a consequence of the shift to the first half of 2008 of certain repairs not done in 2007. The increase in the tunneling and overburden removal work will allow us to increase our production volume in 2009.

In addition, the mineral extraction tax increased by 27 per cent due to increases in the coal price.

The increase in our total cash cost of production and the decrease in production volume as well as depreciation of the US dollar all had an effect on increase in production costs per tonne of coal by 73 per cent.

The table below sets out our coal concentrate production and cash costs of preparation for the six months ended 30 June:

	2008	**2007**	**% change**
	(thousands of tonnes, except percentages)		
Raw coal used in concentrate preparation	5,181	5,839	(11)%
Coal concentrate produced	4,034	4,338	(7)%
Output ratio	78%	74%	
	(US$000, except percentages)		
Estimated cash cost of raw coal used in concentrate preparation [1]	95,849	62,477	53%
Cash cost of preparation	10,586	12,347	(14)%
Total cash cost of coal concentrate produced	**106,435**	**74,824**	**42%**
	(US$ per tonne, except percentages)		
Preparation cash cost per tonne of raw coal used	2.0	2.1	(5)%
Preparation cash cost per tonne of coal concentrate produced	2.6	2.8	(7)%
Total cash cost per tonne of coal concentrate produced	**26.4**	**17.2**	**53%**

(1) Estimated cash cost per tonne of raw coal used in concentrate preparation is a computed value calculated based on the volumes of raw coal used in concentrate preparation and the average cash cost per tonne of raw coal produced.

In the six months ended 30 June 2008, the cash cost of preparation per tonne of coal concentrate produced decreased by 7 per cent due to the increase in the share of coal prepared by Raspadskaya Preparation Plant (99 per cent as compared to 86 per cent in the six months ended 30 June 2007). The preparation cash cost per tonne of coal concentrate produced by Raspadskaya Preparation Plant and by third parties was US$2.6 and US$8.5, respectively.

Railway costs

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

Our coal concentrate and raw coal is delivered to customers by Russian Railways via the federal railway system. 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. Russian Railways increased the railway tariffs on coal transportation by 14.8 per cent from 1 January 2008 and by 11.4 per cent from 1 July 2008.

Exchange rates

Our functional currency is the Russian rouble. Our presentation currency is the US dollar. Our revenues from domestic sales accounted for 73 per cent and 66 per cent of total revenue for the six months ended 30 June 2008 and 2007, respectively. Prices for domestic sales are set in roubles. Most of our costs (except for certain equipment purchases) 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.

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. Our top priorities are keeping our mining equipment in very good condition and maintaining a healthy and safe working environment at each of our facilities through the implementation of stringent safety measures.

Overview of Financial Results for the Six Months ended 30 June 2008 and 2007

The table below sets out our consolidated income statement for the six months ended 30 June:

	2008	**2007**	**% change**
	(US$000, except percentages)		
Revenue	606,613	338,834	79%
Cost of sales	(189,695)	(164,688)	15%
Gross profit	**416,918**	**174,146**	**139%**
Gross profit margin	**69%**	**51%**	
Selling and distribution costs	(3,490)	(9,542)	(63)%
General and administrative expenses	(33,026)	(25,619)	29%
Social and social infrastructure maintenance expenses	(12,679)	(3,215)	294%
Loss on disposal of property, plant and equipment	(430)	(1,114)	(61)%
Foreign exchange gains, net	11,000	5,505	100%
Other operating income	453	446	2%
Other operating expenses	(10,656)	(3,027)	252%
Operating profit	**368,090**	**137,580**	**168%**
Operating profit margin	**61%**	**41%**	
Dividend income	–	4	(100)%
Interest income	4,230	2,068	105%
Interest expense	(13,526)	(15,659)	(14)%
Profit before income tax	**358,794**	**123,993**	**189%**
Profit before income tax margin	**59%**	**37%**	
Income tax expense	(97,009)	(32,470)	199%
Profit for the period	**261,785**	**91,523**	**186%**
Profit for the year margin	**43%**	**27%**	

Revenue

The table below summarises our domestic and export revenues by product types for the six months ended 30 June:

	2008		**2007**		
	Amount	**% of total revenue**	**Amount**	**% of total revenue**	**% change**
	(US$000, except percentages)				
Domestic sales of coal concentrate	418,702	70%	192,364	57%	118%
Export sales of coal concentrate	164,638	27%	115,049	34%	43%
Total sales of coal concentrate	**583,340**	**97%**	**307,413**	**91%**	**90%**
Domestic sales of raw coal	19,617	3%	28,348	9%	(31)%
Total sales of raw coal	**19,617**	**3%**	**28,348**	**9%**	**(31)%**
Total sales of coal concentrate and raw coal	**602,957**	**100%**	**335,761**	**100%**	**80%**
Sale of other goods and rendering of services	3,656		3,073		19%
Total sales	**606,613**		**338,834**		**79%**

99 per cent of our total revenue for the six months ended 30 June 2008 was derived from coal concentrate and raw coal revenues. The major portion of our sales is to our Russian customers who primarily include large metallurgical and coke plants. Our major customers for the six months ended 30 June 2008 and 2007 were MMK, Evraz and NLMK. The share of sales to these customers was 56 per cent and 48 per cent of our total coal concentrate and raw coal sales volume for 2008 and 2007, respectively.

The share of export in total sales decreased from 34 per cent in the six months ended 30 June 2007 to 27 per cent in the six months ended 30 June 2007.

Sales of other goods and rendering of services includes coal transportation services of TPTU provided locally to third parties, sales of sundry goods and services.

Our sales are made under different types of delivery terms (FCA Mezhdurechensk, FOB Shipping point, DAF Customer destination).

The table below presents our domestic and export revenues by product types restated under common delivery terms (FCA Mezhdurechensk) by deducting transportation costs from revenues reported in the financial statements in respect of sales of coal and coal concentrate made under FOB and DAF delivery terms for the six months ended 30 June:

	2008		2007		
	Amount	% of total revenue	Amount	% of total revenue	% change
	(US$000, except percentages)				
Domestic sales of coal concentrate	417,036	71%	185,738	61%	125%
Export sales of coal concentrate	153,416	26%	92,800	30%	65%
Total sales of coal concentrate	**570,452**	**97%**	**278,538**	**91%**	**105%**
Domestic sales of raw coal	19,617	3%	28,348	9%	(31)%
Total sales of raw coal	**19,617**	**3%**	**28,348**	**9%**	**(31)%**
Total sales of coal concentrate and raw coal	**590,069**	**100%**	**306,886**	**100%**	**92%**
Deemed railway tariff included in sales price under delivery terms other than FCA Mezhdurechensk	12,888		28,875		(55)%
Sale of other goods and rendering of services	3,656		3,073		19%
Total sales	**606,613**		**338,834**		**79%**

The deemed railway tariff decreased by 55 per cent because of the decrease in the proportion of revenues made under delivery terms other than FCA Mezhdurechensk.

Cost of sales

The table below sets out the breakdown of cost of sales by major categories for the six months ended 30 June:

	2008		2007		
	Amount	% of production costs	Amount	% of production costs	% change
	(US$000, except percentages)				
Depreciation, depletion and amortization	64,576	38%	61,959	43%	4%
Payroll	34,505	20%	26,573	18%	30%
Materials	29,248	17%	21,840	15%	34%
Mineral extraction tax and other taxes in production costs	10,289	6%	8,122	6%	27%
Payroll taxes	10,609	6%	7,686	5%	38%
Electricity	8,129	5%	6,948	5%	17%
Preparation services from third parties	325	0%	4,751	3%	(93)%
Other services and costs	11,416	8%	6,986	5%	63%
Cost of production	**169,097**	**100%**	**144,865**	**100%**	**17%**
Railway tariff	11,222		21,559		(48)%
Cost of other resold goods	2,534		742		242%
Change in finished goods	6,842		(2,478)		(376)%
Cost of sales	**189,695**		**164,688**		**15%**

Depreciation, depletion and amortisation

The table below sets out our depreciation, depletion and amortisation for the six months ended 30 June:

	2008	**2007**	**% change**
	(US$000, except percentages)		
Depreciation, depletion (excluding mineral reserve) and amortisation	42,926	34,246	25%
Depletion of mineral reserve	24,790	29,283	(15)%
Total	**67,716**	**63,529**	**7%**

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

Payroll and payroll taxes

Payroll and related payroll taxes accounted for 27 per cent and 23 per cent of production costs for the six months ended 30 June 2008 and 2007, respectively.

The table below sets out our payroll costs and related payroll taxes for the six months ended 30 June:

	2008	**2007**	**% change**
Average total number of employees	7,758	7,390	5%
Total net payroll *(US$000)*	50,733	42,522	19%
Total payroll taxes *(US$000)*	14,471	11,119	30%
Average annual payroll per employee, net *(US$)*	13,079	11,508	14%
Effective payroll tax rate, *percentages*	29%	26%	

The increase of the payroll costs in the six months ended 30 June 2008 as compared to the six months ended 30 June 2007 reflected the higher headcount number, the labour cost inflation in the period and rouble appreciation against the US dollar.

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

Preparation services

Since the opening of the Raspadskaya Coal Preparation Plant, the amount of coal preparation by third parties has decreased; the cost of third party processing has consequently decreased from 3.3 per cent to 0.2 per cent of total production cost.

Mineral extraction tax and other taxes in production costs

Taxes included in production costs consist primarily of mineral extraction tax. The mineral extraction tax and other taxes accounted for 6 per cent and 6 per cent of production costs for the six months ended 30 June 2008 and 2007, respectively. The increase in the tax amount is due to the increase in coal prices.

Materials and electricity

The increase in materials and electricity in the six months ended 30 June 2008 was primarily caused by the higher prices and tariffs as compared with the six months ended 30 June 2007 as well as by the increase in the volumes of tunnelling work and overburden removal.

Other services and costs

Other services and costs accounted for 8 per cent and 5 per cent of production costs for the six months ended 30 June 2008 and 2007, respectively. The increase in other services and costs was mainly caused by the increase in the overhaul costs relating to mining equipment and by the increase in third party costs relating to waste removal from Raspadskaya Preparation Plant.

Railway tariff

The decrease in the expenses on railway tariff by 48 per cent in the six months ended 2008 as compared to the six months ended 2007 was due to the decrease in export sales on DAF and FOB terms.

Selling, general and administrative and other expenses

Selling and distribution costs

Selling and distribution costs decreased to US$3.5 million in the six months ended 30 June 2008 from US$9.5 million in the six months ended 30 June 2007 and included customs fees pertaining to the export sales as well as various expenses related to transportation of our products, mainly the transportation of coal concentrate sold to NLMK on terms FCA Lipetsk. Since 1 February 2008 we supply NLMK on FCA Mezhdurechensk terms.

General and administrative expenses

Our general and administrative expenses mainly consisted of payroll and related taxes (61 per cent), other services and costs (20 per cent) and taxes (10 per cent).

Payroll and related taxes increased by 29 per cent because of the increase in the number of administrative personnel and also because of the appreciation of the Russian rouble

Other services and costs include bank services, information, communication, consulting, audit and other fees. The increase in such costs and fees by 38 per cent related to higher consulting fees, bank fees and various one time administrative costs.

Social and social infrastructure maintenance expenses

As is the case for many of the large Russian production companies, we bear certain social costs and social infrastructure maintenance expenses which are primarily in the form of donations and assistance to social sphere objects. Social and social infrastructure maintenance expenses increased from US$3.2 million for the six months ended 30 June 2007 to US$12.7 million for the six months ended 30 June 2008.

Once a year the Group and the Administration of the Kemerovo region sign an Agreement on social and economic cooperation. According to the Agreement we take certain obligations on establishing beneficial conditions for social and economic development of the Region and the Group. In accordance to the Agreement, in the six months ended 30 June 2008 we spent 8.4 million dollars on safety and environmental protection programs.

Loss on disposal of property, plant and equipment

Loss on disposal of property, plant and equipment was US$0.4 million and US$1.1 million for the six months ended 30 June 2008 and 2007, respectively.

Foreign exchange gains/(losses), net

Foreign exchange gains and losses relate to translation difference arising from revaluation of assets and liabilities denominated in foreign currencies (primarily US dollar denominated loans) and exchange rate differences on sales and purchase of foreign currencies. The foreign exchange gain for the six months ended 30 June 2008 was mainly due to the revaluation US dollar denominated borrowings.

Other operating income/(expenses), net

Other net operating income and expenses mainly consists of gains and expenses associated with non-core aspects of our business. Other net operating expenses increased from US$2.6 million for the six months ended 30 June 2007 to US$10.2 million for the six months ended 30 June 2008. The increase includes the accrual of the estimated provision for the FAS fine in the amount of US$4.9 million.

Interest income

Interest income related to short-term deposits held in various banks. The deposits were held with Vneshtorgbank, CB Garant-Invest and Bank of Moscow.

Interest expense

Our interest expense of US$13.5 million and US$15.7 million for the six months ended 30 June 2008 and 2007, respectively, primarily related to interest on borrowings obtained from Natixis, Sberbank, as well as the coupon payments on Eurobonds.

Income tax expense

Our income tax expense was US$97.0 million and US$32.5 million for the six months ended 30 June 2008 and 2007, respectively. The substantial increase in income tax was a result of higher profits in the six months ended 30 June 2008.

EBITDA

The following table sets out our EBITDA[1] calculation for the six months ended 30 June:

	2008	2007
	(US$000, except percentages)	
Net profit	**261,785**	**91,523**
Adjusted for:		
Depreciation, depletion (excluding mineral reserve) and amortisation[2]	41,032	33,434
Depletion of mineral reserve	24,790	29,283
Dividend income	–	(4)
Interest income	(4,230)	(2,068)
Interest expense	13,526	15,659
Income tax expense	97,009	32,470
EBITDA	**433,912**	**200,297**
EBITDA, % of revenue	**72%**	**59%**

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

(2) Depreciation, depletion (excluding mineral reserve) and amortisation for the six months ended 30 June 2008 includes charges relating to cost of sales and general and administrative expenses amounting to US$64.6 million and US$1.2 million, respectively. Depreciation, depletion (excluding mineral reserve) and amortisation for the six months ended 30 June 2007 includes charges relating to cost of sales and general and administrative expenses amounting to US$62.0 million and US$0.8 million, respectively.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from operating activities, debt financing and access to equity capital markets. Our future plan is to finance our capital expenditures, interest expenses and dividends primarily out of our operating cash flows. In addition, when necessary, we may attract borrowings to finance our capital expenditures.

Analysis of Cash Flows for the Six Months ended 30 June 2008 and 2007

The table below summarises our IFRS cash flow statement for the six months ended 30 June:

	2008	2007
	(US$000)	
Cash and cash equivalents at the beginning of the period	82,311	49,219
Net cash from operating activities	350,996	117,362
Net cash used in investing activities	(191,719)	(56,787)
Net cash used in financing activities	(135,000)	(44,777)
Effect of foreign exchange rate changes on cash and cash equivalents	4,322	1,245
Cash and cash equivalents at the end of the period	110,910	66,262

Net cash generated from operating activities

The table below presents the cash flow from operating activities for the six months ended 30 June:

	2008	2007
	(US$000)	
Net profit	**261,785**	**91,523**
Adjustments to reconcile net profit to net cash flows		
Non-cash:		
Depreciation, depletion and amortisation	67,716	64,742
Deferred income tax benefit	(9,811)	(7,498)
Loss on disposal of property, plant and equipment	430	1,114
Foreign exchange gains	(11,000)	(5,505)
Dividend income	–	(4)
Interest income	(4,230)	(2,068)
Interest expense	13,526	15,659
Employee benefits	(48)	159
Bad debt expense	190	351
	318,558	**158,473**
Changes in working capital:		
Inventories	1,697	(4,918)
Trade and other receivables	(1,198)	(21,646)
Receivables from/payables to related parties	10,919	(1,523)
Trade and other payables	5,403	(7,138)
Taxes payable	15,617	(5,886)
Net cash flow from operating activities	**350,996**	**117,362**

Net cash flow used in investing activities

The major components of the net cash flow from investing activities are presented in the following table for the six months ended 30 June:

	2008	2007
	(US$000)	
Purchases of property, plant and equipment	(151,245)	(59,308)
Short-term deposits at banks, including interest, net	(40,622)	2,034
Other investing activities, net	148	487
Net cash flow from investing activities	**(191,719)**	**(56,787)**

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

Net cash used in financing activities

The major components of the net cash flow from financing activities are presented in the following table for the six months ended 30 June:

	2008	2007
	(US$000)	
Proceeds from loans	3,29	305,70
Repayment of loans, including interest	(37,233	(326,648
Dividends paid	(101,019	(23,091
Payments under finance leases, including interest	(47)	(744)
Net cash flow from financing activities	**(135,000**	**(44,777**

Capital Expenditures

The following table sets forth our capital expenditures for the six months ended 30 June:

	2008	2007
	(US$000)	
Raspadskaya	81,549	25,679
Raspadskaya Koksovaya	27,340	11,922
Razrez Raspadsky	15,239	9,401
MUK-96	11,410	3,683
Raspadskaya Preparation Plant	4,232	11,152
Other	11,475	2,084
Total capital expenditures	**151,245**	**63,921**

Our major development capital expenditures relate to technical re-equipment of production capacities.

Our plan of capital expenditures implies US$172 million investments in the six months ended 31 December 2008.

Indebtedness and contractual obligations

The following table sets forth our indebtedness as of 30 June 2008:

	Repayment of Principal Due By Period			
	Less than 1 year	1-2 years	More than 2 years	Total
	(US$000)			
Long-term debt, including current portion	20,511	2,927	300,000	323,438
Short-term debt	3,346	–	–	3,346
Interest payable	2,469	–	–	2,469
Total	**26,326**	**2,927**	**300,000**	**329,253**

In May 2007 we issued Eurobonds at total amount of US$300 million. We used these proceeds to repay our US$300 million bridge loan from Natixis Banques Populaire. The Eurobonds are issued for 5 years and mature in May 2012 with fixed coupon of 7.5 per cent per annum.

Off-Balance Sheet Arrangements

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